ICMR: Background Paper

Retail Investor Behaviour in 2020: Data Insights

Institute for Capital Market Research Malaysia

This Background Paper represents research-in-progress and is produced to elicit comments and encourage discussion on the topic during a webinar organised by ICMR to be held on April 12th, 2021. The webinar is open to public and details are provided at the end of this paper.

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2020 was undoubtedly an unusual year for many reasons. The pandemic and ensuing global lockdown led to serious concerns about the shape of the overall economy, including unemployment, the viability of smaller businesses and government stimulus responses. However, the reaction in the capital market seems to tell a different story.

In the US, the S&P Index soared to an all-time high of 3,756 in December 2020,[1] to end the year with an increase of 16.3% year-on-year while NASDAQ, also hit its historical high of 12,888 in December 2020, rose 43.6% year-on-year.[2] Interestingly, retail investors played a larger role in terms of trading volume in 2020, contributing to nearly 20% of stock market participation (average at 15% between 2014-2019) amid a sharp increase in unemployment rates from 3.8% in February to 14.4% by April, before finally decreasing to 6.5% by December.[3] Headlines abounded with reports of surges in retail account openings, particularly for digital trading apps. The number of Robinhood user positions in S&P 500 stocks tripled just between January to June 2020. Google searches worldwide for the term "investing" spiked in March 2020, increasing to 97 searches a day from its previous high of 55 in August 2018.

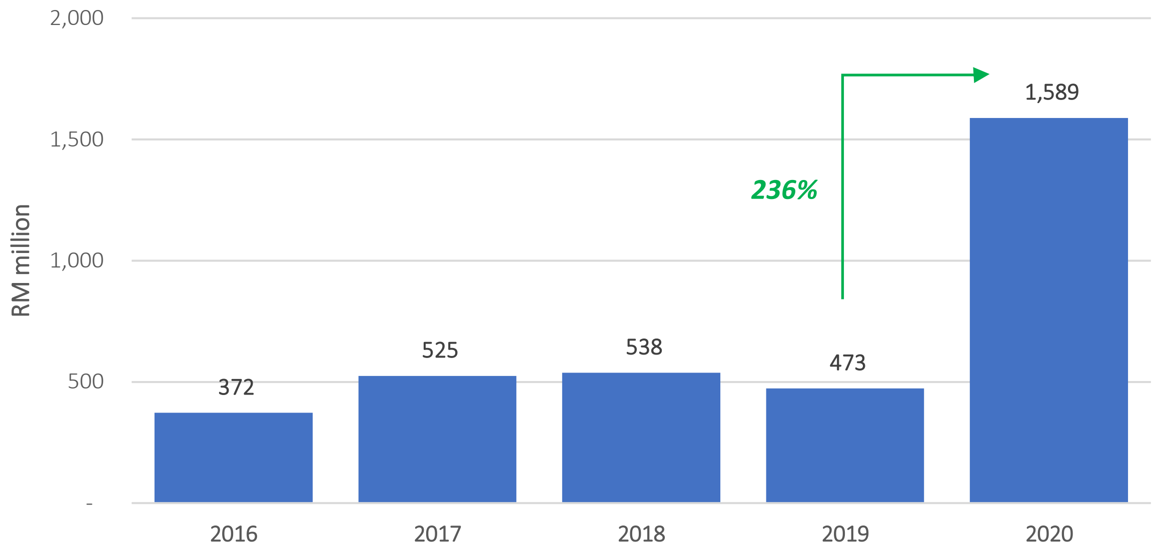
This phenomenon of increased retail participation was not confined to the US. Closer to home, the number of investor accounts under Stock Exchange of Thailand (SET) rose to 2 million as of June 2020, an increase of around 10.5% (190k new accounts) from December 2019.[4] Similarly, the Indonesian Central Securities Depository (KSEI) saw the number of retail investors rise to 1.2 million as of June 2020, an increase of around 12% (144k new accounts) from December 2019. Interestingly, KSEI stated that about 40% of those investors are aged between 18 and 30, which has been the fastest-growing investor segment in the bourse in the past couple of years. In June, the average daily transaction value of retail investors surpassed that of institutional investors in Indonesia.

[1] CEIC data as of December 2020
[2] CEIC data as of December 2020
[3] CEIC data as of December 2020
[4] Stock Exchange of Thailand

The Malaysian Context

In Bursa Malaysia, retail average daily trading value (ADV) hit a historical record of RM1.6 billion in 2020, a 236% increase from 2019 (Figure 1). The top 3 sectors that had garnered the retail investors' interest in 2020 were Healthcare, Technology and Industrial Products and Services.

Figure 1: Retail Investors' Average Daily Trading Value



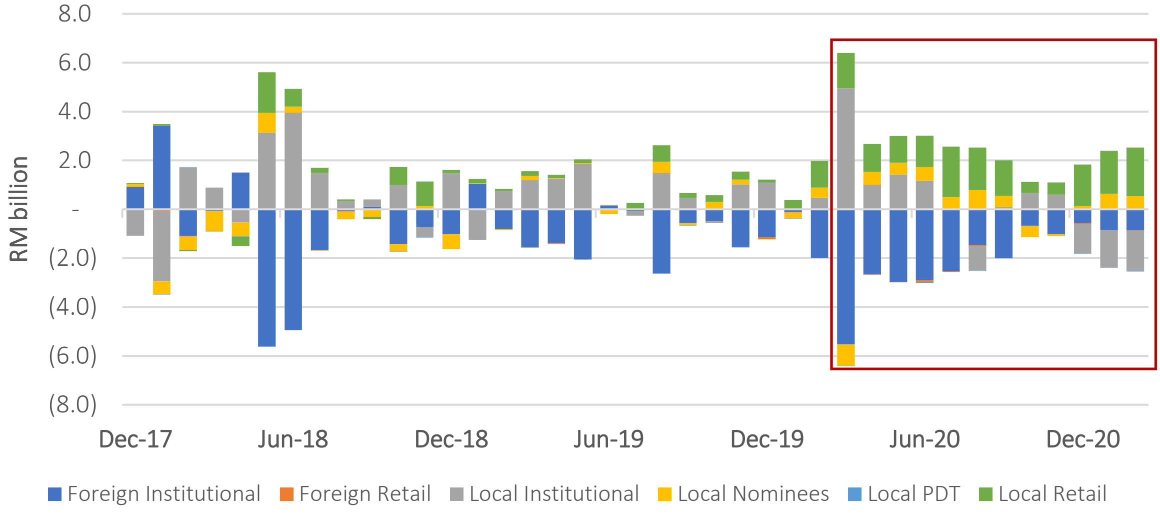
Source: Bursa Malaysia

In August 2020, the Securities Commission Malaysia (SC) conducted a review based on a sample of more than 19,000 most active CDS accounts, accounting for two-thirds of the total volume traded in each of the most active stocks in August 2020.[5] From this sample, it was found that 83% of retail trading activity took place in stocks valued at less than RM0.50, and that retail trading interest was focused on the ACE and Fledgling markets. This reflects the outstanding performance of the ACE market, which rose 105.4% year-on-year in 2020 (compared to 2.4% year-on-year for the KLCI Index).

Participation of local retail investors in Bursa reached 32% in terms of trading value, the highest it has been in a decade. Local retail investors also remained net buyers throughout 2020, propping up the bourse while local and foreign institutional investors sold off their holdings. Both net trading value and net trading volume of local retail investors in 2020 were about 5 times more than in 2019 (Figure 2 and Figure 3).

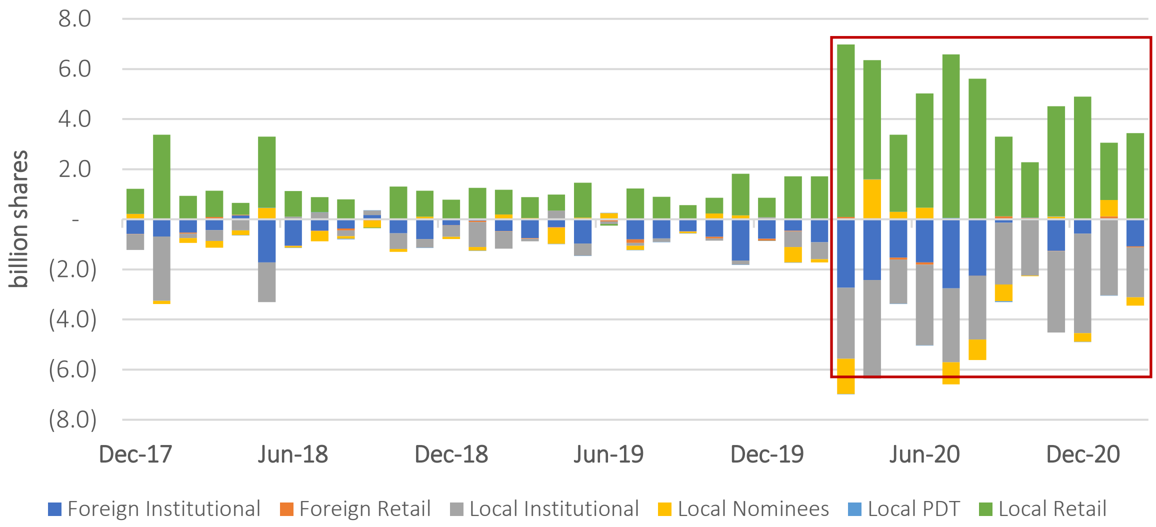
[5] Securities Commission Malaysia Annual Report 2020

Figure 2: Bursa Malaysia Net Trading Value by Investor



Source: CEIC, ICMR; Data updated as at end Feb 2021

Figure 3: Bursa Malaysia Net Trading Volume by Investor



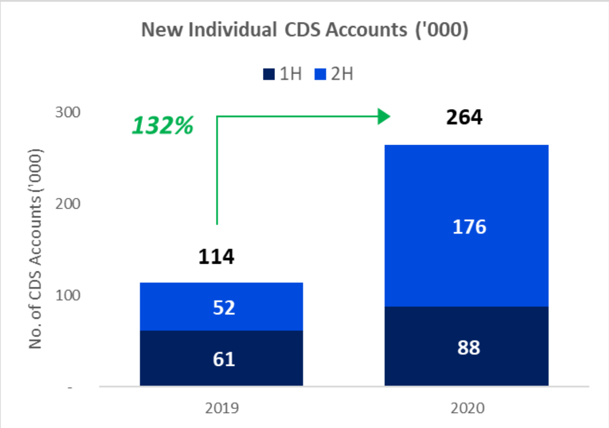
Source: CEIC, ICMR; Data updated as at end Feb 2021

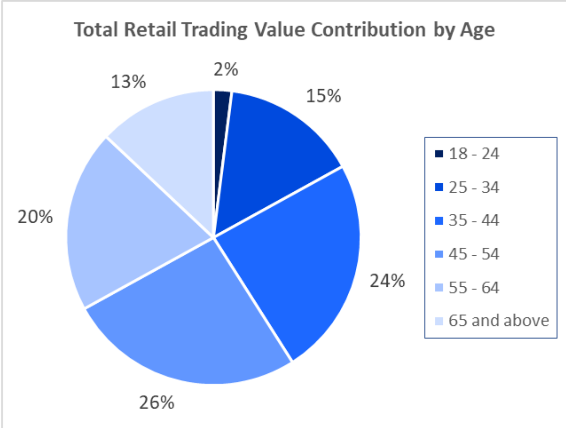
Bursa Malaysia also saw a surge in new individual CDS account openings, with a 132% increase year-on-year in 2020. 64% of the new accounts opened in 2020 were from those aged 25-44 years old, signifying renewed interest from a younger generation of investors.[6] Investors aged between 35–54 years old were the largest contributor to retail ADV, contributing about half of the ADV or RM794.5 million in 2020 (Figure 4).

[6] Bursa Malaysia FY2020 Financial Results

Based on the same SC review of the 19,000 most active CDS accounts by volume in 2020, it was highlighted that 75% of these accounts belonged to investors above 40 years old, with 87% of these accounts opened prior to 2020.[7] This could indicate that the older and more experienced investors are still more active volume-wise.

Figure 4: New Individual CDS Accounts Opened and Total Retail Trading Value Contribution by Age



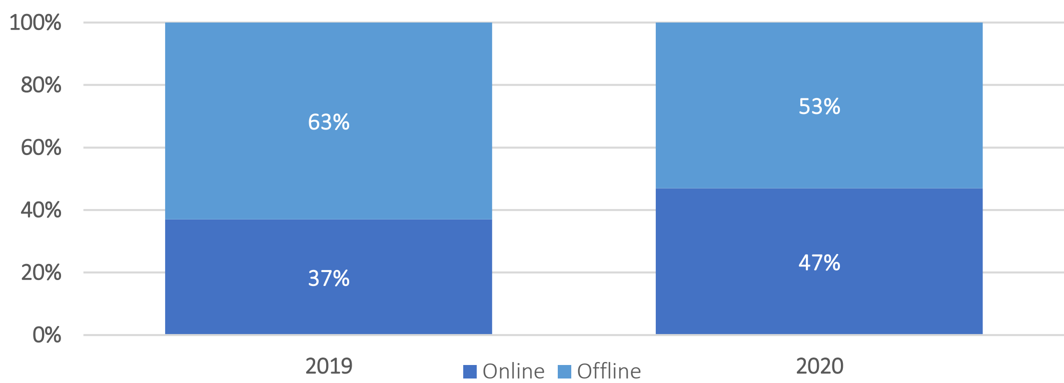


Source: Bursa Malaysia

2020 also saw remarkable growth in online trade values due to a shift towards electronically mediated transactions. Online trades accounted for 47% of total trade value in 2020, compared to 37% in 2019. The ADV of online trades also grew 156% in value in 2020, to RM2.0 billion from RM0.8 billion in 2019 (Figure 5).[8]

In 2020 online-only brokers saw 249% growth year-on-year,[9] with Rakuten Trade stating that about 80% of their customer base is below 40, which would capture the extent that younger investors are entering the market for the first time in 2020.

Figure 5: Contribution of Total Trade Value in Bursa Malaysia

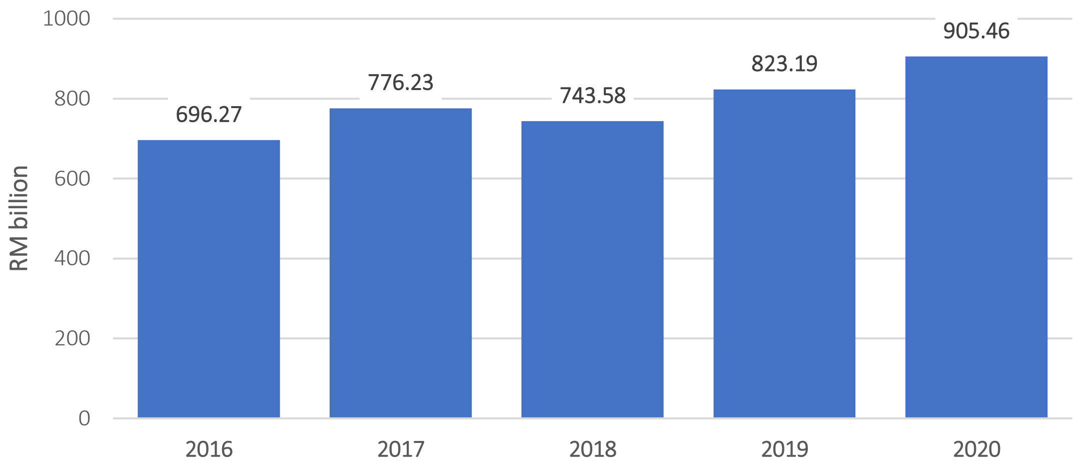


Source: Bursa Malaysia

[7] Securities Commission Malaysia Annual Report 2020
[8] Bursa Malaysia FY2020 Financial Results. Data obtained from briefing deck and is limited to 2019 & 2020
[9] Securities Commission Malaysia Annual Report 2020

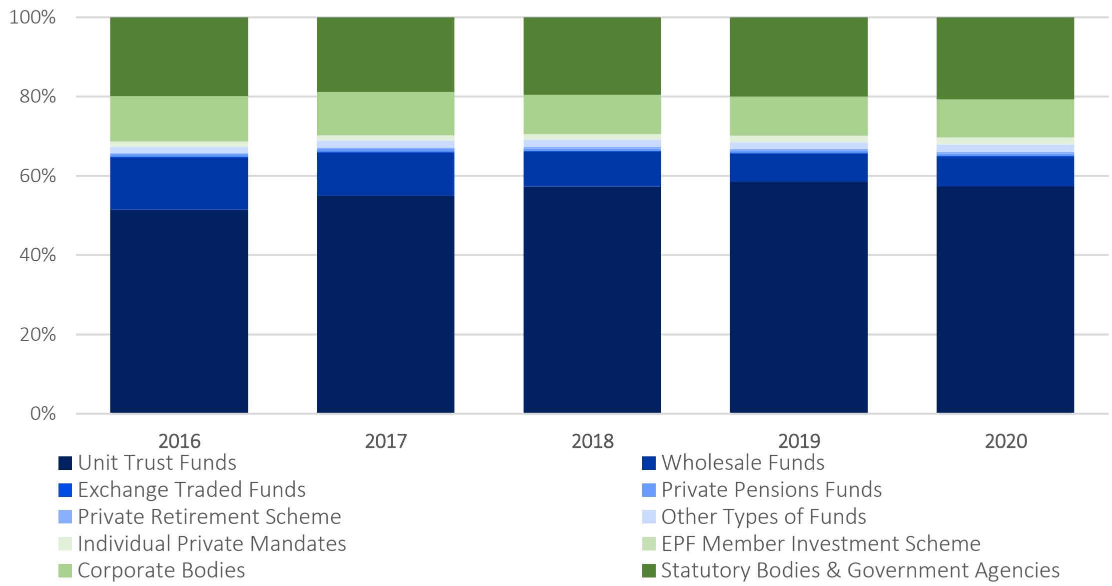
Growth in retail investor participation was also seen in other areas of the capital market. Notably, 175,000 new digital investment management (DIM) accounts were opened in 2020, a more than 700% increase from 2019,[10] indicating growing interest in the digital investing and roboadvisory segment. As a whole, the fund management industry grew by 10% to total assets under management (AUM) of RM905.5 billion in December 2020 (Figure 6). By breaking down the total AUM into the various sources of funds, it is found that unit trust funds alone accounted for more than 57% of the total AUM (Figure 7). [11]

Figure 6: Malaysian Fund Management Industry Assets Under Management for 2016 - 2020



Source: Securities Commission, ICMR

Figure 7: Breakdown of Malaysian Fund Management Industry Assets Under Management 2016 - 2020

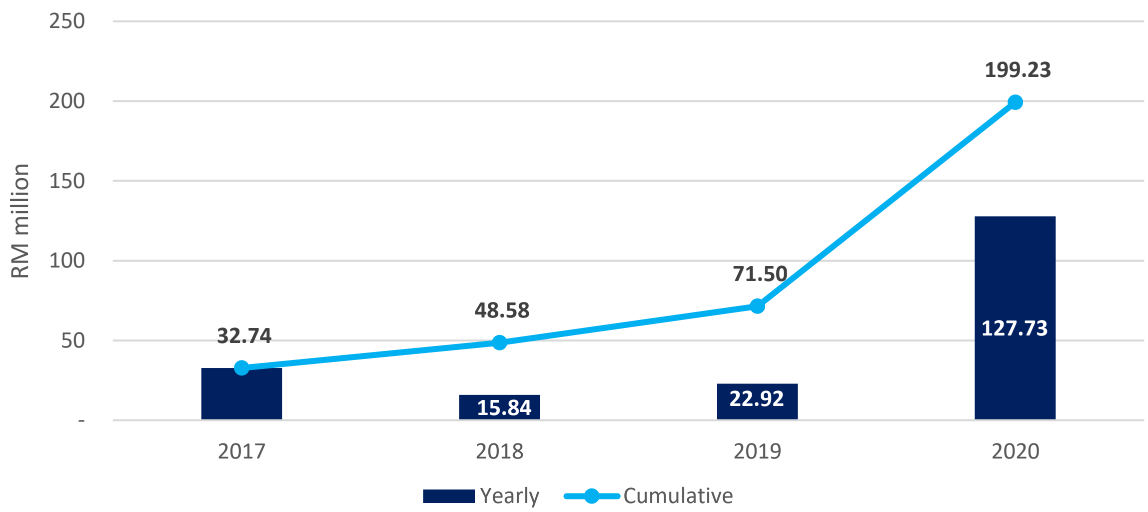


Source: Securities Commission, ICMR

[10] Securities Commission Malaysia Annual Report 2020
[11] Securities Commission Malaysia Annual Report 2020

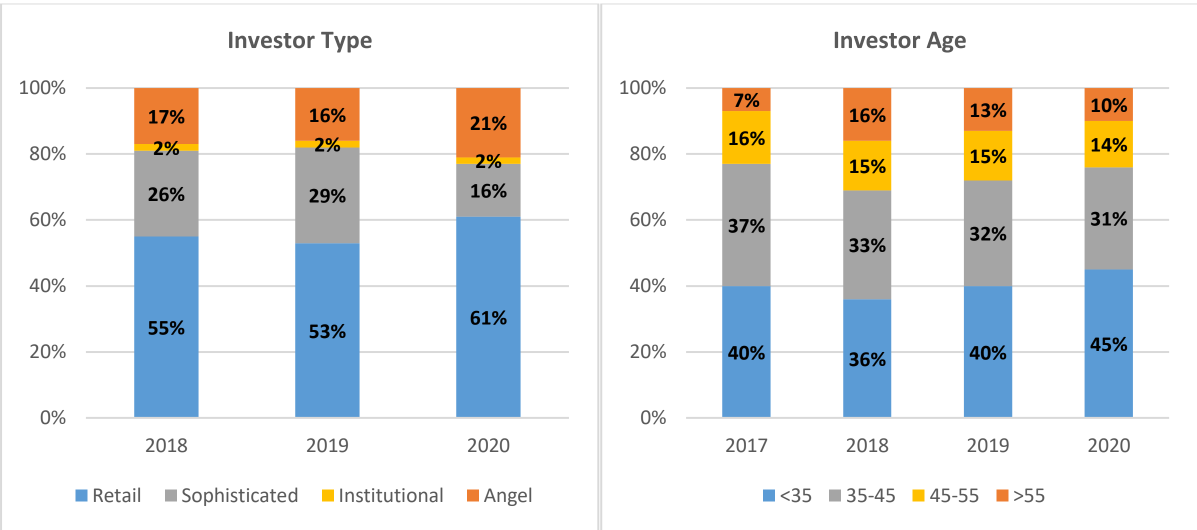
There was also strong retail participation in the newer fundraising avenues – namely equity crowdfunding (ECF) and peer-to-peer lending (P2P). Funds raised through ECF rose from RM 32.74 million in 2017 to RM127.73 million in 2020 (Figure 8).[12] In the ECF space, 60% of the investors are retail and more than 40% of the investors are below 35 years old (Figure 9).

Figure 8: ECF Funds Raised since 2017



Source: Securities Commission, ICMR

Figure 9: ECF Investor Profile by Investor Type and Age

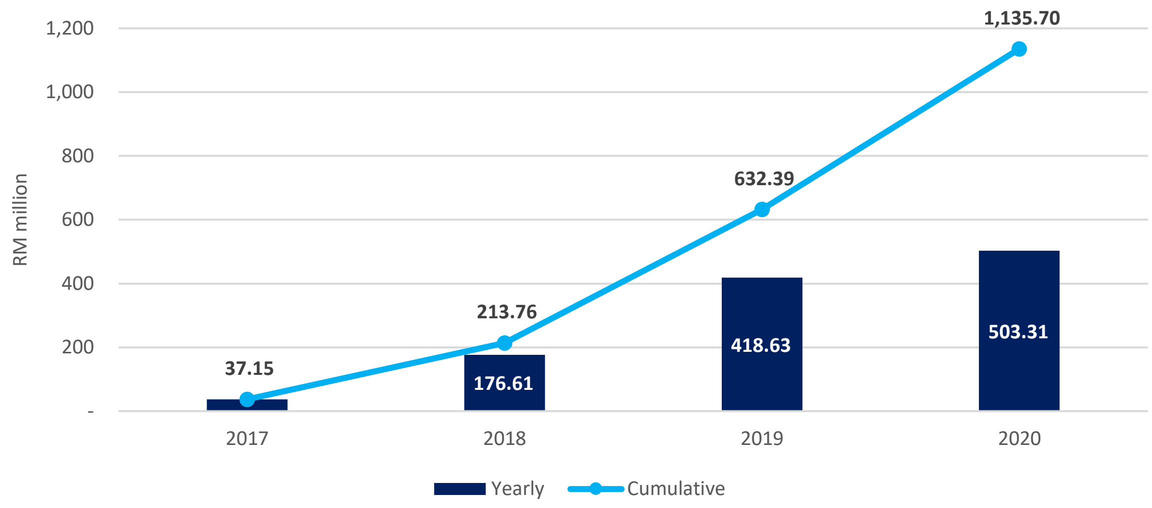


Source: Securities Commission, ICMR

[12] Securities Commission Malaysia Annual Report 2020

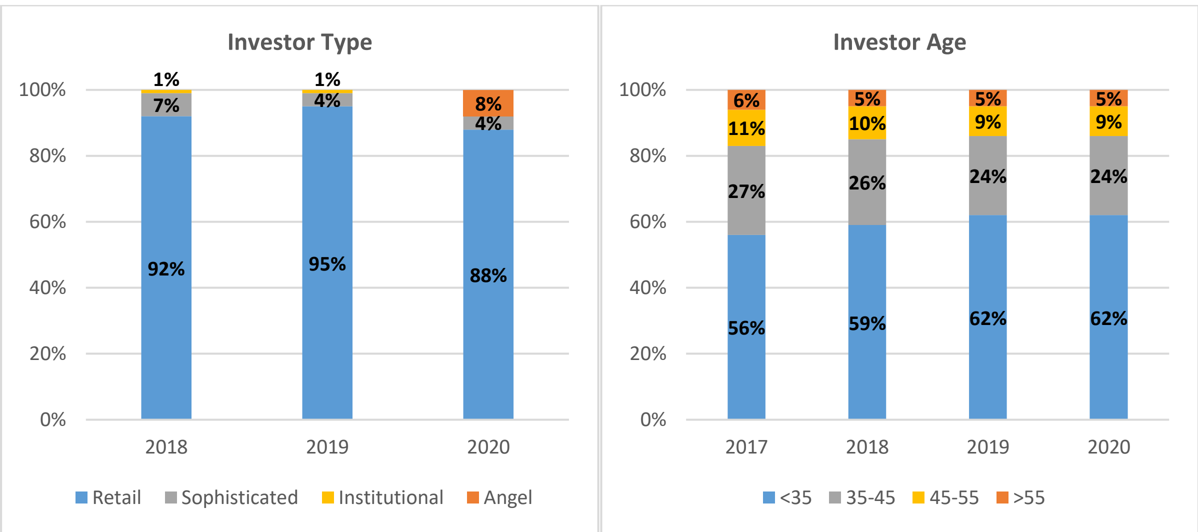
The same trend is also seen in the P2P market whereby funds raised rose from RM37.15 million in 2017 to RM503.31 million in 2020 (Figure 10).[13] About 90% of the investors are retail and more than 60% of the investors are below 35 years old (Figure 11).

Figure 10: P2P Funds Raised since 2017



Source: Securities Commission, ICMR

Figure 11: P2P Investor Profile by Investor Type and Age



Source: Securities Commission, ICMR

[13] Securities Commission Malaysia Annual Report 2020

Possible Reasons For This?

There have been many proposed theories as to what led to the significant increase in retail interest in 2020. However, it is still premature to conduct a full empirical study to understand the impact of the counter-cyclical policies introduced during the pandemic as the transmission effects of the measures are subjected to lag effects, especially as some of the measures are ongoing. Nonetheless, capital markets, have always served more as a "forward-looking" barometer. Thus, it can act as a useful indicator for understanding the emerging and underlying trends in capital markets and the broader economy, for instance understanding the changing consumer and investor patterns.

One key catalyst which led to the rise in capital markets and the increase in retail interest in 2020 is the additional market liquidity, which was driven by multiple factors. It has been posited that globally, the pandemic created a "perfect storm", where the combination of government stimulus measures, stay-at-home orders which led to lower discretionary spending, lower interest rates and increased accessibility to investing all played a role in creating "excess savings", boosting market liquidity and encouraging retailers to enter the market.

A study by The Economist of 21 high income countries showed that households saved USD 6 trillion in the first 9 months of 2020, double the estimated USD 3 trillion they would have saved if not for the pandemic. Unlike previous recessions, household savings actually increased in these countries, likely fuelled by a drop in discretionary consumer spending during the lockdown and various government measures.

Further, a survey of six countries conducted by Allianz showed that the COVID-19 lockdowns changed saving behaviours. People not only saved more, for the lack of consumption opportunities, but they also saved differently, channelling more money into capital market products such as equities and investment funds.

Another potential catalyst which deserves further discussion is the extent that blanket policy measures introduced at the start of the pandemic to provide financial relief for the wider population amidst economic uncertainties, also ended up providing additional cashflow for retail investors to channel into investments.

Taking a more specific look into the Malaysian context, a myriad of possible factors could have led to the increase in retail participation. On 18th March 2020, the government announced stay-at-home measures accompanied by various stimulus measures. A blanket loan moratorium was announced for six months commencing 1st April 2020, freeing up an estimated RM97.26 billion, of which RM63.22 billion were utilised by individuals.[14] This was coupled with record low overnight policy rate of 1.75% as of end 2020 (with rates having been cut by a total of 125 basis points in 2020).

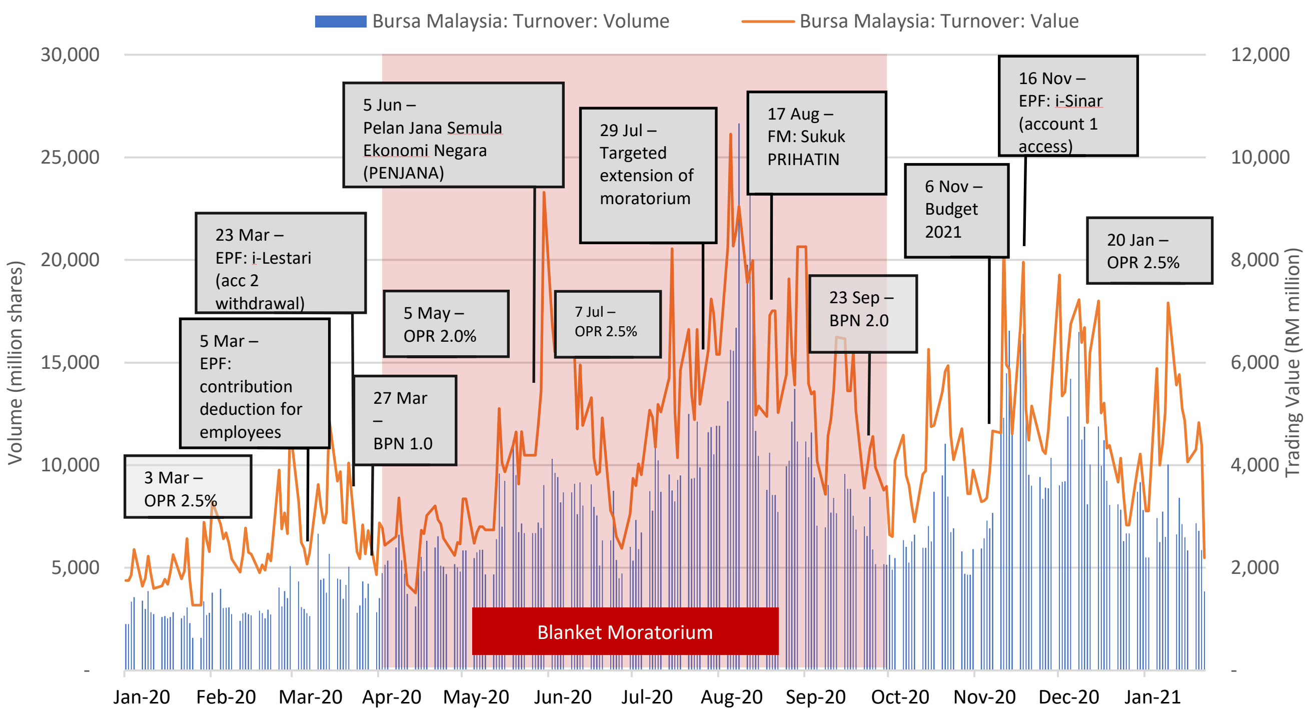
At the same time, the mandatory contribution rate for EPF was lowered from 11% to 7% for the period of April to December 2020 which was estimated to unlock up to RM10 billion worth of private consumption. Conditional withdrawals from EPF were also allowed under various i-Lestari and i-Sinar

[14] Data as of 25 September 2020. Association of Banks Malaysia (12 March 2021)

measures. It was estimated that i-Lestari, which allowed withdrawals from EPF's Account 2, benefitted 5.16 million members with a total value of RM18.1 billion in 2020. To provide additional financial relief, PRS contributors were also allowed a penalty-free one-off withdrawal of up to RM1,500 from their Account B (per provider), without tax penalty. This saw a significant increase in withdrawals from PRS with pre-retirement withdrawals in 2020 increasing to 52% of total withdrawals, compared to only 18% of total withdrawals in 2019.[15] Moving forward, while i-Sinar was initially estimated to benefit around 2.5 million individuals, the relaxing of withdrawal conditions commencing March 2021 may lead to additional applications. EPF estimates that up to RM90 billion may be withdrawn under the i-Sinar scheme, with RM 52.48 billion having been approved for 5.94 million applicants as of 12th March 2021.[16]

Based on a mapping of Bursa trading activity against pivotal news events, it would appear that trading volume and value started to spike in May 2020, peaking in August 2020 before dropping at the end of September 2020. This seems to coincide with the timeline of the loan moratorium, as it commenced in April and the blanket moratorium ended on 30th September 2020. These spikes also coincided with announcements on OPR cuts (Figure 12).

Figure 12: Timeline of Key Announcements Mapped against Bursa Malaysia Trading Volume and Value for 2020



Source: ICMR, BNM, EPF, various news portals

[15] Securities Commission Malaysia Annual Report 2020
[16] Laporan Laksana ke-46

While granular data for household income and expenditure in 2020 is not yet available, based on Department of Statistics Malaysia, it should be noted that while unemployment in Malaysia stood at 4.8% as of Q4 2020, the number of employed persons under the “skilled” category actually increased by 8.6% in Q4 2020, compared to the previous year.[17] However, employed persons in the semi-skilled category declined by 1.6 per cent while those in low-skilled category recorded a sharp decrease of 15.2 per cent. Similarly, own account workers, who consists mostly of micro and unregistered entrepreneurs, dropped 5.7 per cent as against Q4 2019.

This suggests that those with skilled employment, that usually tend to be higher paid compared to semi-skilled and low-skilled work, might have been relatively less impacted financially by the pandemic. Combined with a possible reduction in discretionary spending, these “excess savings” could have been channelled into the capital market.

As part of ICMR’s ongoing research on financial inclusion, in our previous paper *Enhancing Financial Literacy in a Digital World: Global Lessons from Behavioural Insights and Implications for Malaysia* ICMR had looked at how behavioural insights can inform us about the way investors behave and react. Drawing on behavioural insights in the context of the discussion on retail investors in 2020, part of this might indicate a form of mental accounting, as individuals view the sum that they had mentally set aside for loan payments or from excess savings as “spare cash”. In turn, this implies that retail investors saw the capital market as being an avenue to make quick gains (as opposed to continuing payments on the loans or putting the money into safer options). Further, behavioural research has shown that automatic opt-out reduces friction and loss aversion, as most people will settle for the default option. Hence, the fact that the blanket loan moratorium was a default opt-out (as opposed to opt-in) may have nudged many people to accept the loan moratorium, even if their incomes were unaffected, hence freeing up liquidity.

This is in line with research examining investor data in Europe and UK, which posited that the lockdown left investors with more time on their hands, and that they “turned to their portfolios as a form of amusement”. Behavioural research has indicated that boredom is an important factor in the development of gambling behaviour, which might also explain the preference for seeking quick gains in the capital market.

Further, the constant media coverage on the market rally, particularly on rubber stocks in Malaysia, could have created a sense of overconfidence and “gambler’s fallacy” in entering the market. Social media and online forums, as well as reports on record number of retail investors globally, could also have enhanced societal peer pressure and the “Fear of Missing Out”. As we had previously discussed in our paper on the GameStop Rally, the rise of app-based investing also lowers barrier to entry into the market, making investing a lot more accessible to retailers.

While we cannot say for certain, at this juncture, the exact reasons which caused the spike in retail investor participation in 2020, the pandemic provides a unique opportunity to investigate their behaviour in these unprecedented conditions at the micro-level to better understand aggregated

[17] Department of Statistics Malaysia (2021) Labour Market Review Malaysia, Fourth Quarter 2020

market outcomes especially in the context of fast-evolving developments such as technology and the role of social media.

As part of our research project on retail investor behaviour, ICMR will also be conducting a survey later this year to better understand the perceptions and mindsets of millennials and Gen Zs who form the new class of investors.

A Discussion: The Shape of Things to Come

While the renewed interest in investing is a welcome sign to increase the diversity and vibrancy of the Malaysian capital market, it also begs questions regarding the readiness of retail investors. Robust retail investor participation needs to be paired with sufficient financial literacy to ensure long-term financial wellbeing. This becomes particularly urgent as the new generation of investors will be navigating a world of financial tools and advice that is very different from just ten years ago. As we have seen in the recent GameStop saga, the increased accessibility to investing may also encourage risk-taking behaviour and perpetuate herd mentality.

Further, the implications of some COVID-19 policies such as the loan moratorium and EPF withdrawals may reverberate past the pandemic period. While these measures were urgently needed for many who were in dire financial situations, it may inadvertently encourage risk-taking behaviour for those who leveraged on these policies for short-term gains. Thus, in discussing the shape of things to come, it is also important to consider the implications of both the transitory and permanent factors affecting retail investor behaviour, such as the COVID-19 policies as well the role of technology and social media.

This also leads to bigger questions on how capital market policies can play a role in supporting informed investor behaviour, particularly in challenging times like these. Against the backdrop of some of these bigger questions, key issues that should also be delved further into, include but are not limited to:

- What does the retail investor pattern we saw in 2020 say about investor behaviour?
- How are the new generation of investors changing the way we think about investment?
- How do we strike a balance between making investment accessible and over encouraging risk-taking behaviour?
- What is the role of digital platforms and social media content creators as younger investors increasingly invest and seek information online?
- How can financial education be more effective, and how do you educate someone on making decisions based on fundamentals and not sentiment?

To explore these issues in further detail, ICMR will be organising a webinar as follows:

This webinar is free and open to public. Please [sign up here to register.]

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