Discussion Summary from ‘Retail Investor Behaviour: 2020 and Beyond’ Webinar

ICMR
Institute for Capital Market Research Malaysia

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 the impact of government stimulus responses. However, the reaction in the capital market seems to tell a different story. Both globally and in Malaysia, we saw retail investor participation reaching record highs. Headlines abounded with reports of surges in retail account openings. A new wave of investors, younger and digitally-savvy, entered the capital market.

On 12th April 2021, ICMR hosted a webinar to discuss the rise in retail investor participation in markets as seen in 2020, the factors that drove it, and what these trends mean for the future of capital markets. The panel comprised of speakers from diverse backgrounds, including an academic expert in behavioural economics, industry leaders, and a personal finance content creator.

Panel Speakers:

- Dr. Joanne Yoong, Senior Economist USC, ICMR Research Fellow and behavioural expert
- Azhar Mohd Zabidi, Director, Securities Market, Bursa Malaysia
- Lok Eng Hong, Regional Head, Retail Brokerage, Maybank Kim Eng
- Wong Wai Ken, Country Manager, StashAway
- Suraya Zainudin, Personal Finance Content Creator, Ringgit Oh Ringgit

Introduction by: Datin Azleen Osman Rani, Director of ICMR

Moderated by: Alea Nasihin, Senior Research Analyst at ICMR

Summary points:

- The panel noted that this was not the first time that retail investors were key drivers of the market. Prior to the Asian Financial Crisis in 1997/98 (“AFC”), retail investors made up roughly 60% of investor participation. In the subsequent years, retail investors started to channel more of their investments into unit trusts, thus reducing direct retail participation into Malaysia’s stock market.

- The panel discussed reasons for the rise in retail participation during the pandemic, driven by a **confluence of several factors from increased ease and access to trading (with a majority of trades being executed online), more time at home and some cashflow assistance from the moratorium as well as macro factors such as low interest rates.** Technology played a key role, through the combination of social media’s “peer effects” as well as the rising popularity of fintech platforms to facilitate the rise in more “self-directed” investing in the stock market.

- **The panel viewed the term “retail investor” as too broad or generic, as there are clear distinctions within the definition. The recent rise in retail investor interest, for instance was driven by both experienced and a new wave of younger investors, hence a “one size fits all” approach in understanding their behaviour may not be relevant in this changing landscape.** However, one commonality between them is the flexibility to make fast decisions which cannot be done by institutions, especially those faced with concerns of redemptions during the pandemic. One panellist shared his observation that it was experienced retail investors who first stepped in when the markets fell in March 2020, as they could identify "value" opportunities due to market dislocations. From an institutional investor standpoint, a key difference is the need to factor in the longer-term consequences of the pandemic into their decision-making.

- ❖ There was a **surge in participation from younger investors**, which indicates a sustainable interest towards participation in the markets. When asked if age and experience made a difference to investor behaviour, some panellists highlighted that based on their data, more inexperienced investors suffered higher loses throughout 2020 as they tended to act more irrationally (reducing/stopping monthly deposits leading to an underperformance of 15% compared to those who continued).

- ❖ Technology has not only allowed retailers to trade easily online, but also access information and education more easily. In addition to **increased accessibility**, **larger coverage of products and higher quality of products** has also encouraged retail investors. The increased accessibility was seen as key for new investors alongside the increased role of social media.

- ❖ On the role of influencers, it was noted that **influencers do play a big role, especially as social media becomes a more prevalent part of individual lives**. Though disclaimers have been provided by some social media influencers as a preface that their content should not be construed as financial advice they are often not enough as it may go unseen. Individuals, especially the younger generation, tend to be sceptical of authority and have higher levels of distrust in the financial system. In addition, many people already have a mental block with regards to complex financial information received via a top-down approach. In contrast, influencers can provide more engaging content, and this is particularly appealing as personal finance tends to also be an emotional and social topic. From a behavioural perspective, most individuals will naturally gravitate towards sources who they find more relatable, regardless of whether that person may be licensed or qualified.

- ❖ Many financial services, including and especially fintech platforms, make use of referral schemes with financial incentives which encourages social media users (regardless of whether they are personal finance content creators or not) to create content thus recruit more users for the platform. Generally, personal finance content creators do take the steps to provide information on the investment vehicle to their audiences. However, individuals and content creators in other spaces (e.g., lifestyle content creators) may not give the same information to their audiences, even though they too are promoting financial apps and services. As such, **social media chatter should not be looked at in isolation without the marketing and financial incentives or push factor by the financial platforms**.

- ❖ In this regard, the role of influencers needs to be assessed and redesigned to deliver the right information in a more accessible way. The individual who is more reliant on influencers may also be more susceptible to scams or "pump or dump" schemes, emphasizing the importance of delivering the right message. Individuals also need to remember that licensed professionals undergo multiple due diligence and governance processes, including their trading history and fit and properness. This highlights the complexity of the issue, as licensed individuals are bound by compliance and regulation to disclose a certain level of information, while less-responsible individuals can use more simplified narratives that may be more engaging behaviourally.

- However, encouraging the right type of investor with the right message is important, and capital markets should be wary about encouraging retail participation just for retail participation's sake. **Regulators would also need to adapt to this new approach of relaying a more relatable message to build investor confidence**, **as well as continuously review their approaches and processes.** Given the fast evolution of technology, **more pre-emptive regulatory approaches are needed with better use of data supplemented by further investor awareness and financial education initiatives.** However, the new ways for financial education will need to move away from a top-down approach which can be deemed as too prescriptive, and instead incorporate both technical knowledge and behavioural elements.

- The panellists are **optimistic that retail investors would continue to participate in the capital market**, fuelled by the surge of younger investors, social media, and technological developments. In fact, many of these structural forces have been prevalent for a while, even pre-Covid-19, although the pandemic might have been a catalyst in accelerating these changes.

- There remain key challenges in balancing individual responsibility with investor protection, as well as the ability for capital markets (and financial advice) to be more inclusive. **Moving forward, the panel also explored the need for combined use of data science and behavioural science, better communication and monitoring techniques using technological tools, as well as the need for clearer understanding of the different roles within the market, as key to gaining better insights on retail investor behaviour in a digital age.**

*ICMR's Background Paper for this webinar, **Retail Investor Behaviour in 2020: Data Insights** is available here on our website. The full profile of the speakers is also available here.*

This webinar forms part of a broader project ICMR is doing on the topic of Financial Inclusion and Retail Investor Behaviour. If you may be interested in collaborating in this area, do reach out to Alea Nasihin at nazalea@icmr.my. You may also follow Institute for Capital Market Research on LinkedIn to keep updated with our latest research.