RETAIL INVESTOR BEAT

Autumn report
October 2022

FOREWORD

There were few places to hide for retail investors in Q3, with equity markets failing to recover from the June sell-off, most major global stock markets still in bear territory and traditional safe havens such as bonds and commodities also faltering.

Three consecutive quarters of depressed markets have dealt a significant blow to investor confidence according to our Q3 Retail Investor Beat, and many have opted to reduce the amount they invest in the face of rising living costs.

Nonetheless, the majority remain optimistic. Most plan to continue investing the same amount or more in the next three months, whilst others are building up cash ready to invest when markets improve. Some have moved into more defensive sectors and asset classes, while a good deal of investors have found opportunities in volatility.

The data also shows that most investors think long term, putting money into the market with the goal of long-term financial security, whilst just a handful are day traders.

Maintaining this long term perspective gives you a huge advantage in volatile markets and could give this group an edge over institutional investors. It is also a very different picture to the one often painted of retail investors, as FOMO-driven speculators, or dumb retail money buying high and selling low.

As we head into the final quarter of what has been a challenging year, it is clear that global economies and markets still have a lot to grapple with, but retail investors can take some reassurance. The outlook is improving, with bad news already reflected in the lower market prices and cheaper valuations, whilst inflation is starting to come under control. With this in mind, my message to retail investors is this: stay resilient and stay invested.

Ben Laidler
Global Markets Strategist at eToro

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There were few places to hide for retail investors in Q3, but the outlook is improving. The important thing now is to stay resilient and stay invested.

CONFIDENCE FALLS AS INFLATION **BITES**

In Q3, retail investor confidence fell to a record low as a growing number of markets and economies around the world faced the spectre of runaway inflation. However the picture is very different across age groups, with younger investors with longer time horizons less concerned about the current climate.

Less than two thirds (64%) of retail investors feel confident about their investment portfolios. Whilst this number may seem reasonable or even high given the challenging market conditions, it marks a steep decline (16 percentage point drop) in sentiment amongst this normally optimistic group over the last year.

This decline in confidence is being felt across several different areas of life, with the number of retail investors confident in their future income and living standards dropping from 80% a year ago to 54% in Q3. Those confident in their job security also fell from 83% a year ago to 71% in Q3.

Whilst sentiment is down for retail investors around the world, some are far more optimistic than others. In the Netherlands, 77% are still confident in their investments, whilst this falls to 55% for Denmark and Poland, and just 52% for those in Italy. Confidence also declines with age, with 73% of retail investors aged 18-34 confident in their investments, versus just 55% of over-55s, with the latter group having shorter time horizons with which to ride out market downturns.

16

percentage point drop YoY in those feeling confident about their investments

26

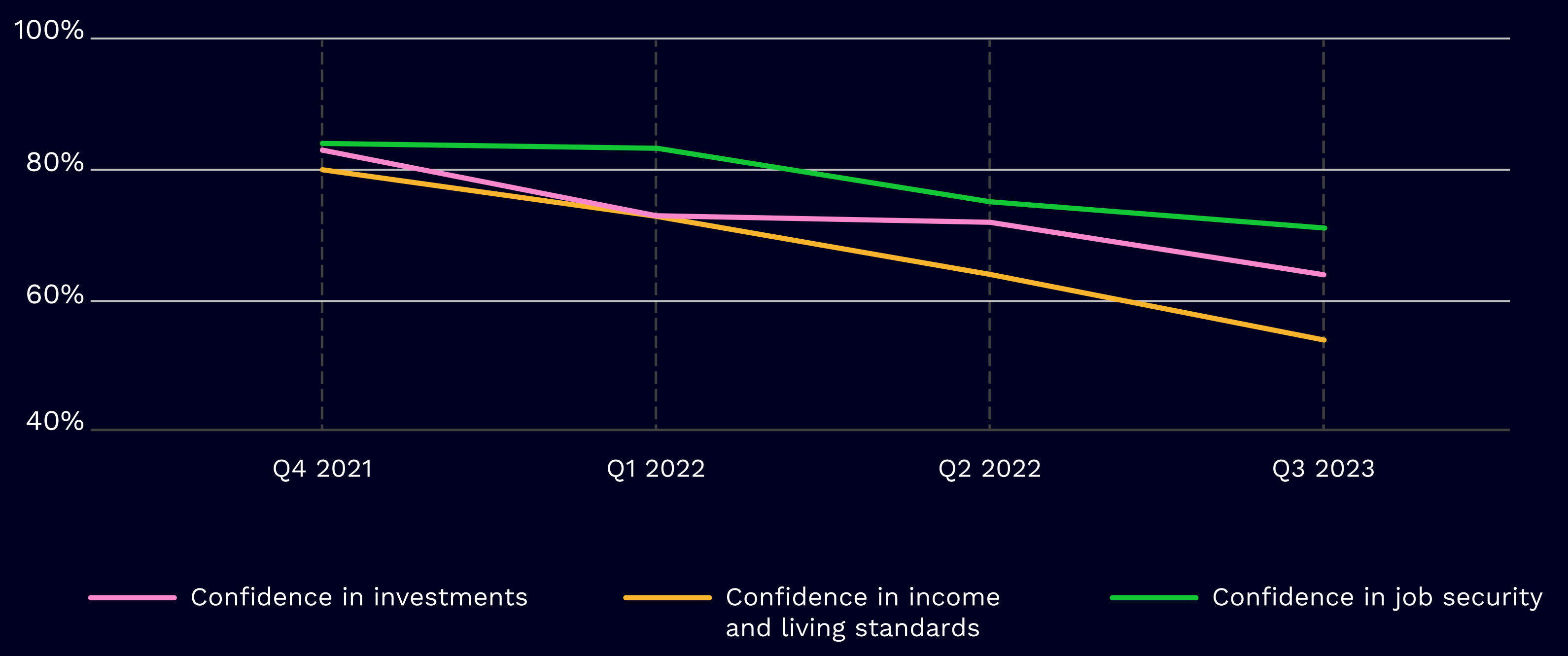
percentage point drop YoY in those feeling confident about their living standards

13

percentage point drop YoY in those feeling confident about their job security

> A steep decline in investor confidence can be an important contrarian indicator that we are near a market bottom.

Retail investor confidence over the last 12 months



Ben Laidler: “Confidence has taken a real hit in the last year, yet the majority remain positive, something which speaks to the resilience of this group. There may also be a silver lining to the drop in confidence as it can be an important contrarian indicator that we are near a market bottom. If confidence is already very low, then investors are less likely to be surprised by further bad news, and even a little bit of good news can go a long way in driving renewed market interest.”

REDUCING INVESTMENTS TO
FOCUS ON THE NOW

A large number of retail investors have reduced the amount they invest in the last three months whilst they grapple with the here and now. However, the data indicates that this trend may change in Q4 with many investors sitting on the sidelines waiting for opportunities.

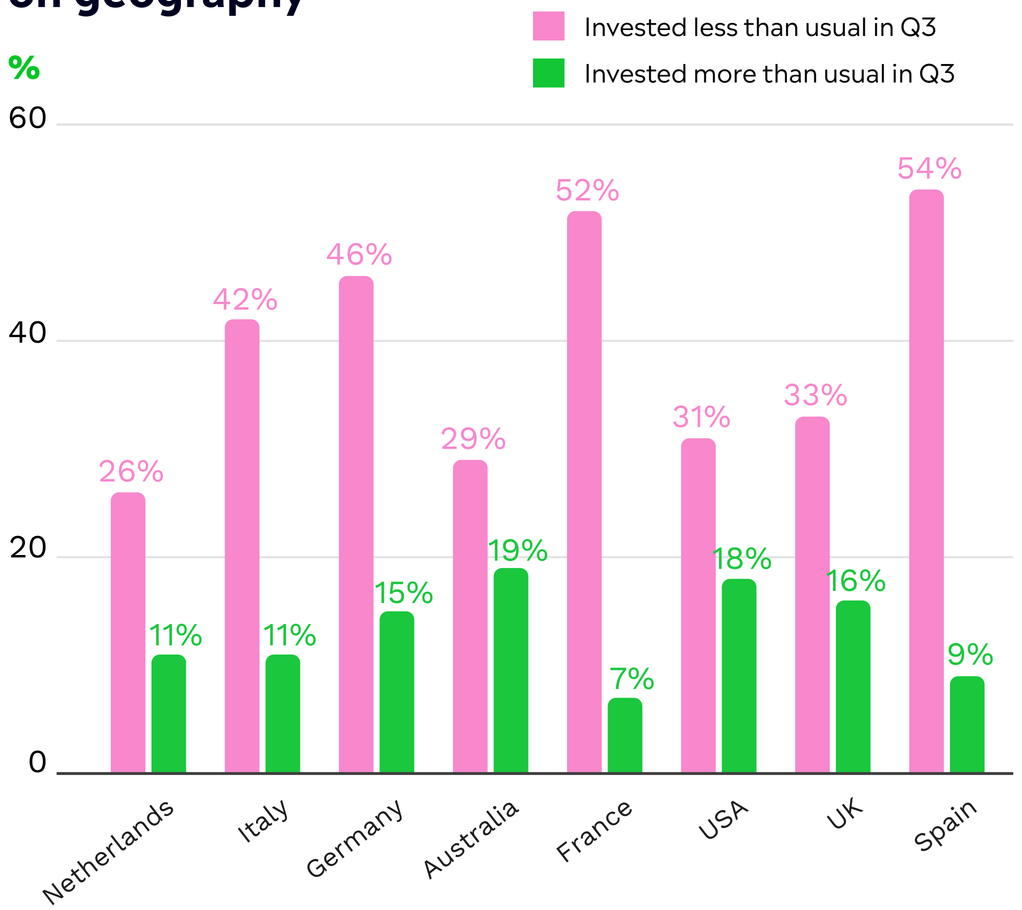
In the last quarter, two in five (41%) retail investors have invested less money than they did previously. This trend is more prevalent amongst female investors (43% vs 39% of men) and younger investors, with the latter likely to have less disposable income to keep up regular contributions whilst dealing with inflating costs. Half (49%) of 18-34-year-olds have reduced the amount they invest in the last quarter, whilst only 35% of over-55s have done so.

There are also stark differences when it comes to geography, with retail investors in Spain twice as likely as those in the Netherlands (54% vs 26%) to have reduced their investments, whilst investors based in Australia are more than twice as likely as those in France (19% vs 7%) to have invested more in Q3.

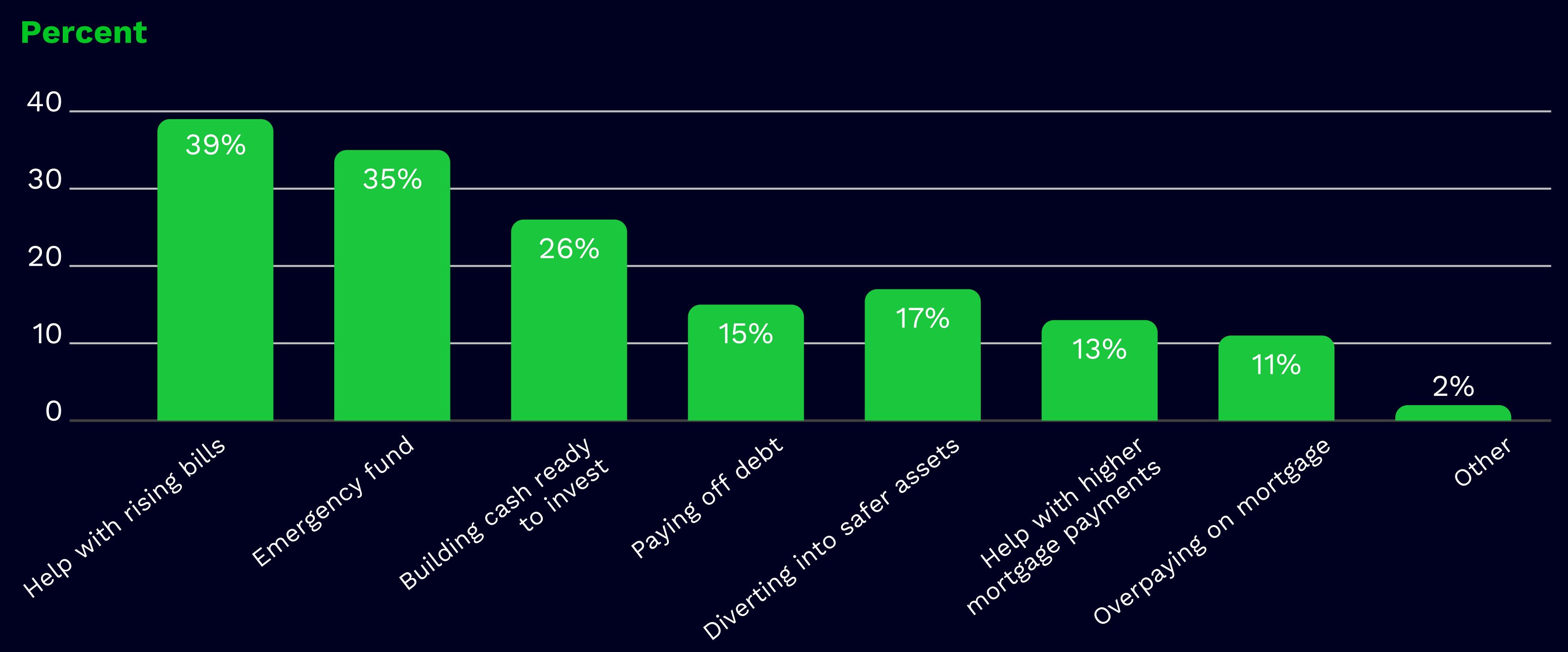
The key drivers of the decline in investing in Q3, whilst hardly surprising, are varied. Of those investing less, two in five (39%) are doing so to help cover the cost of rising household bills, whilst more than a third (35%) are building up emergency cash reserves. With rising interest rates signalling the end of cheap money, some are also prioritising outstanding debt (15%), with one in ten (11%) overpaying on their mortgage.

One in four (26%) of those who have invested less are building up cash, ready to invest as soon as markets look better. This chimes with the fact that 31% of investors expect to invest less than usual in Q4, versus 41% who reduced investments in Q3. All in all, retail investors are feeling less bearish about Q4 than Q3.

Retail investor behaviour depending on geography



How retail investors are using the funds they would normally have invested



Ben Laidler: “Retail investors are facing a combination of harsh market conditions, rising bills and more punishing mortgage rates so it’s little wonder many have switched priorities. However, the majority have either continued to invest the same amount over the last three months or actually increased their investments. It’s clear that a lot of retail investors still see opportunities in the current climate.”

TURNING DEFENSIVE

Retail investors around the world took a more defensive stance in Q3 in the face of highly turbulent markets and growing recession fears. Despite this defensive shift, some are also being opportunistic.

Retail investors have responded decisively to a dramatically changed market environment, with the number holding cash almost doubling from 26% in Q3 2021 to 46% in Q3 2022. With equity markets continuing to falter and interest rates rising, cash was the second most popular asset class in Q3 for the second quarter running, behind domestic equities. Commodities, a traditional inflation hedge, have also become more popular, with 37% of retail investors holding them, up from 15% a year ago.

As well as increasing their cash holdings, investors are thinking more defensively when it comes to sector allocation. Currently 47% of retail investors own energy stocks, a defensive play during an energy crisis. When asked what sectors they will be invested in next quarter, this figure rises to 51% for energy. Meanwhile the number of retail investors with money allocated to the financial services and industrial sectors (both typically cyclical and non-defensive) is set to drop from 65% to 57%, and from 45% to 41% respectively.

Many retail investors seem to be taking a barbell approach - pairing their more defensive positioning with an opportunistic mindset. The number invested in currencies jumped from 19% in Q2 to 27% in Q3, whilst back in Q3 2021, the figure stood at just 9%. Volatile FX markets, driven by commodity price shifts, rising interest rates and a dominant US Dollar, have provided an attractive opportunity for investors.

Cryptoasset ownership amongst retail investors continues to steadily increase, despite the significant market sell-off in 2022. This suggests that new entrants may be looking to buy the dip whilst existing retail investors continue to hold onto their cryptoassets. The percentage holding crypto in their portfolio now stands at 36%, up from 31% in Q2 and from 24% 12 months ago.

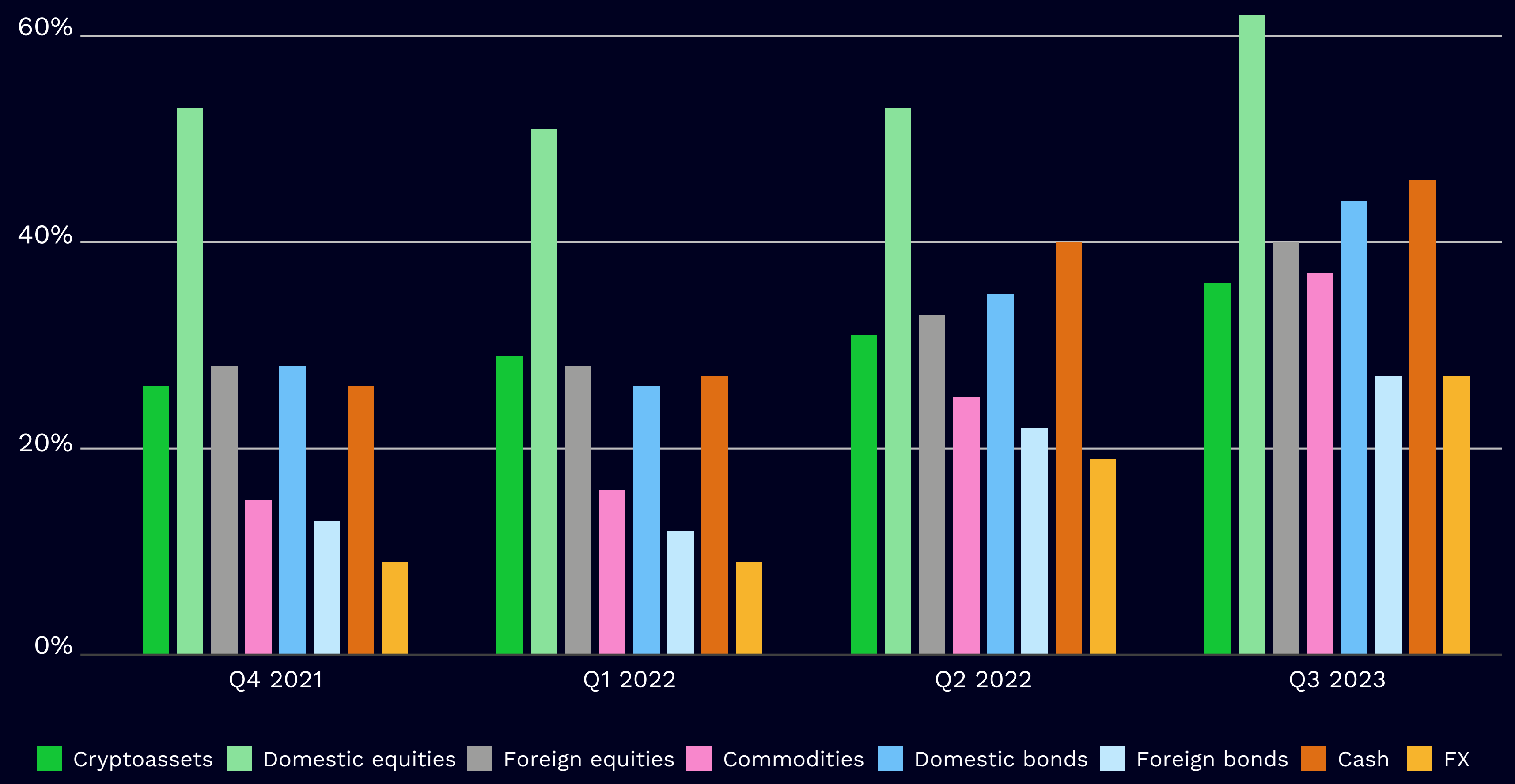
> “ As well as taking on a more defensive mindset, global retail investors are also seeking out opportunities where they can find them.

20
percentage point jump in investors holding cash since Q3 2021

4
percentage point rise in energy allocation over next three months

8
percentage point drop in investors holding financial services stocks by Q4

Retail investor asset class ownership over 12 months



Ben Laidler: “Retail investors’ cash allocation has steadily risen quarter on quarter for the last year and can you blame them? Markets remain hugely unstable and with banks finally increasing savings rates, cash at least offers some certainty and now a return.”

RESILIENT INVESTORS THINK **LONG** TERM

2022 has been a grounding experience for all investors. Valuations have plummeted and supposed safe havens have failed to offer adequate protection. Yet the majority of retail investors have a long-term mindset, suggesting they are prepared to ride out the storm.

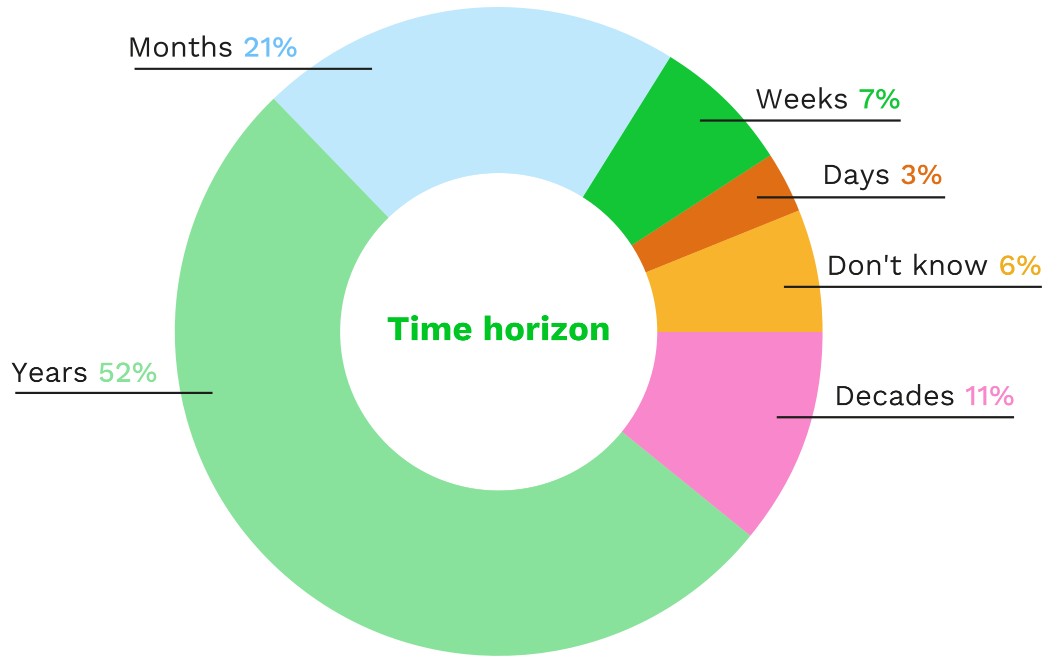
Two thirds (63%) of retail investors say they look to hold an individual investment for a time frame of years or decades, dispelling myths that this group is dominated by short-term speculative day traders. In fact, just 3% fit the definition of day traders - holding investments for days at a time.

There is also a strong correlation between investment experience and time horizon, with more experienced retail investors holding assets for longer. Of those with 1-2 years' experience, half (50%) said their intention was to hold their investments for years or decades. This rose to 67% for those with 6-10 years' experience, whilst for retail investors with over 20 years' experience, the number jumps to 82%, indicating that the longer someone spends investing, the more they adhere to the old adage of 'time in the markets beats timing the markets'.

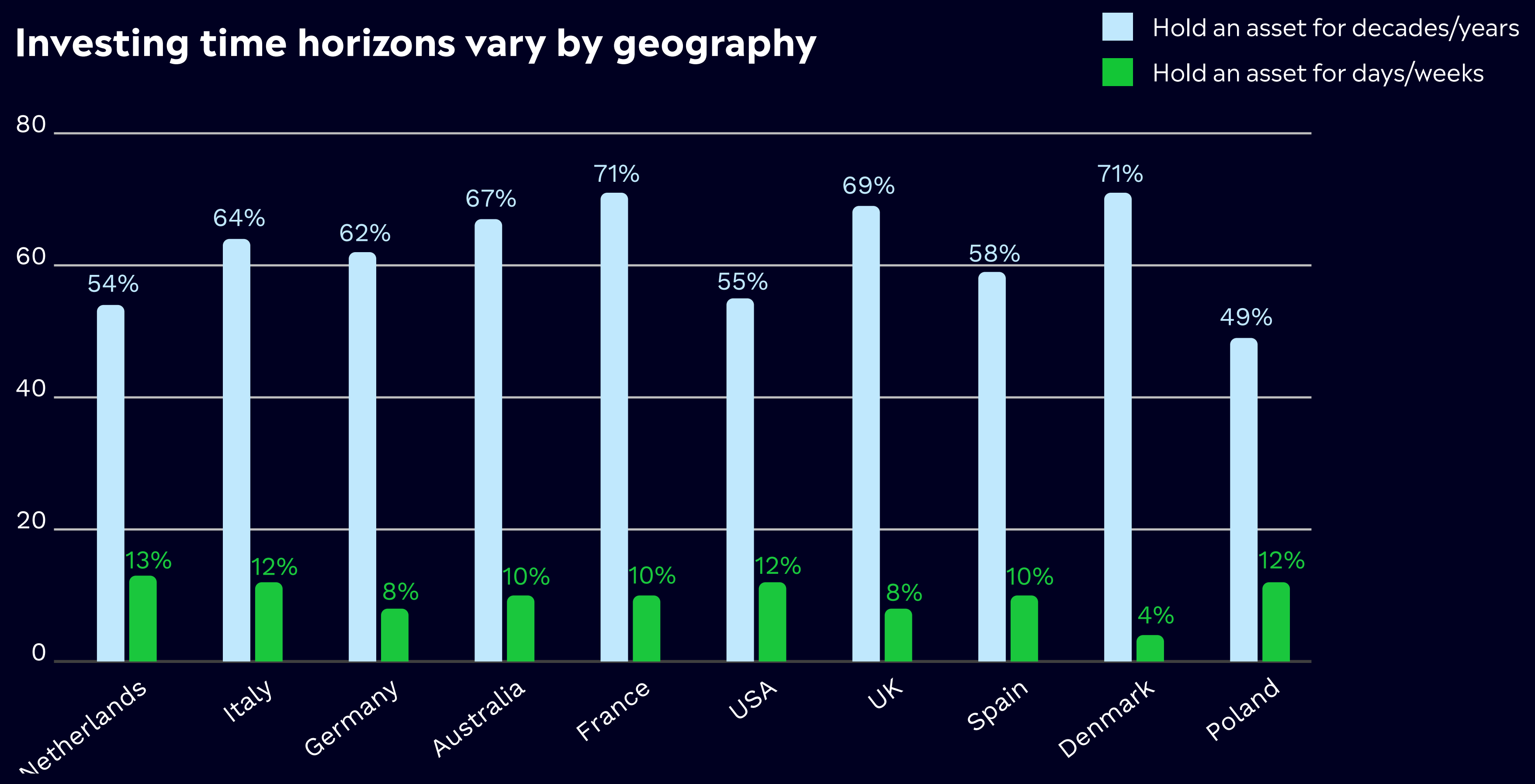
Time horizons also differ by geography, with French and Danish investors the most long-term, with 71% holding investments for either years or decades. This figure drops to 49% for Polish retail investors and 54% for Dutch.

This picture of retail investors as long term makes perfect sense when you consider their key motivators for investing in the first place. Almost half (43%) are doing so to provide long-term security, the most common goal, whilst 33% want their investments to help fund their retirement. Fewer (29%), on the other hand, are investing to supplement their income, a shorter-term aim.

Average length of time that retail investors hold an investment



Investing time horizons vary by geography



Ben Laidler: "The explosion of retail investors in 2021 transformed the status of this ever-growing section of the market. Yet misperceptions persist of retail investors as short term day traders who don't understand the markets. This clearly isn't the case, with most holding onto assets for years, whilst also responding to market conditions when necessary by adjusting their portfolios. "

FIVE KEY NUMBERS

64%

of retail investors are confident about their investments

Just under two thirds of retail investors feel positive about their investment portfolios at the end of Q3, the lowest level of confidence we've seen in any Retail Investor Beat.

41%

invested less in Q3

Two in five retail investors invested less than normal, with many using this income to cover household bills and debt. However, a significant part of this group is also building up cash ready to invest when the time is right.

27%

of retail investors have FX exposure

More than one in four were invested in currencies at the end of Q3, with this figure tripling from 9% one year ago. Volatile currency markets have provided an attractive opportunity for investors in 2022.

46%

of retail investors are stocking up on cash

Almost half of retail investors have money in cash, up from 26% in Q3 2021. Investors are taking a defensive stance in light of this year's turbulent market.

63%

of retail investors think long-term

Two thirds of retail investors generally hold an investment for years or decades, with just 3% holding investments for a matter of days. The figures dispel the myth of dumb retail money and speculative day traders.

ABOUT THIS **REPORT**

The Q3 Retail Investor Beat was based on a survey of 10,000 retail investors across 13 countries and 3 continents. The following countries had 1,000 respondents: UK, US, Germany, France, Australia, Italy and Spain. The following countries had 500 respondents: Netherlands, Denmark, Norway, Poland, Romania, and the Czech Republic.

The survey was conducted from 16th - 28th September 2022 and carried out by research company Appinio. Prior to Q2, previous waves of this survey were conducted quarterly in conjunction with Opinium.

Retail investors were defined as self-directed or advised and had to hold at least one investment product including shares, bonds, funds, investment ISAs or equivalent. They did not need to be eToro users.

Get in touch

If you would like to speak with Ben Laidler or to find out more about eToro's Retail Investor Beat you can contact eToro's PR team on **pr@etoro.com.**