



A helicopter view of young Belgian retail investors



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ABSTRACT

This article analyzes the behavior of Belgian retail investors over different age categories. It highlights five distinct features of the younger investors aged 18 to 30. First, the stock market keeps on attracting new and young investors. Secondly, younger retail investors show great interest in investing in exchange-traded funds (ETFs). Thirdly, the younger generation applies a more international outlook in its investments than older generations. Fourth, young investors are net purchasers of stocks and hold these investments for a longer period than other groups. Finally, even among younger investors, active retail investors are predominantly male.

Introduction

The first lockdown period in March and April 2020 as a result of the COVID 19 pandemic sparked a major interest among retail investors and produced a strong spike in retail activity. Although activity has since not reached those highs, it has nevertheless remained at an elevated level with several intermittent bursts of activity (see Figure 1).

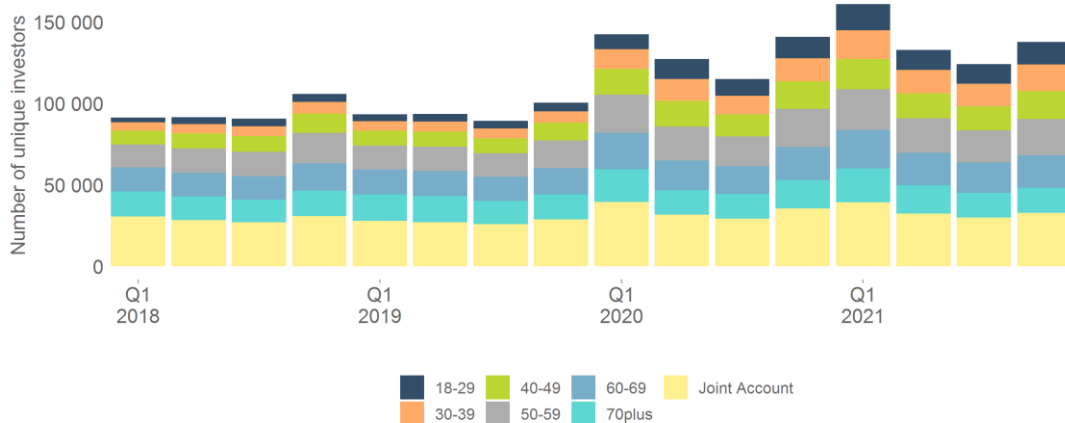


**Figure 1: Daily monetary traded volume of stocks by Belgian retail traders via Belgian brokers
(final date: 31/12/2021)**



Restricting any analysis to the aggregate trends in the market risks missing important trends that are occurring at a more granular level among retail investors. One trend that stands out quite profoundly is the consistently increased participation of individual Belgian retail investors. For instance, Figure 2 highlights how the number of unique Belgian retail investors surpassed its high of the first quarter of 2020 during the first quarter of 2021 (143.000 in Q1 2020 vs. 161.000 in Q1 2021), even though the peak in terms of traded monetary volume of the former period was never matched in the latter period. Moreover, the share of relatively young investors (defined henceforth as investors aged between 18 and 29) has remained elevated since the first quarter of 2020. In 2018, one in 22 investors was a young investor, while in 2021 this rose to every one in ten.

Figure 2: Number of unique Belgian retail investors





This article will focus on several specific trends related to this class of younger investors. Their behavior is of relevance for several reasons. Since younger investors trade smaller amounts, they are at risk of incurring higher costs as a result. Given their limited prior experience, this makes them an important focal group for any financial supervisor. Additionally, they form a particularly interesting indicator of changing trends and behaviors in the markets as societal generation gaps translate into investment behavior.

Data Sources and Methodology

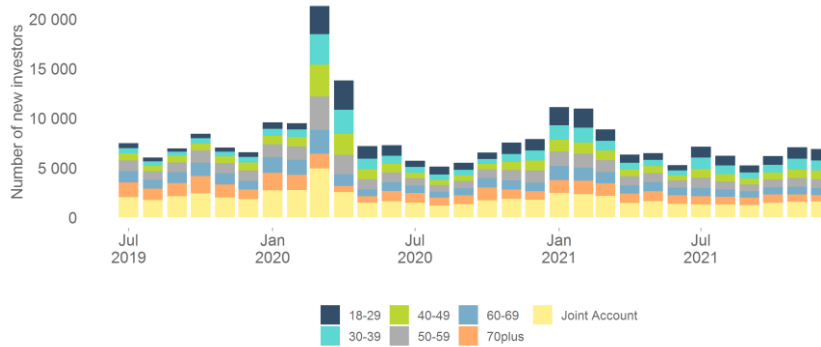
The data used in this analysis consists of transactions that were reported to the Belgian Financial Services and Markets Authority (FSMA) in light of the reporting requirements under the Markets in Financial Instruments (MiFID) II directive. For the analysis on young retail investors in this article, data from the 3rd of January, 2018 until the 31st of December, 2021 concerning trades in stocks and ETFs through Belgian brokers is retained. While trades in Belgian instruments through foreign brokers are also reported to the FSMA, foreign brokers do not report trades by Belgian retail investors in other instruments. In this sense, it is impossible to trace the full extent of the trading activity of each retail investor. Therefore, the analysis is limited to Belgian retail investors trading through Belgian brokers¹.

Analysis

The number of new retail investors entering the market correlates with the turbulence in the market. This becomes clear upon comparing Figure 3 with Figure 1, where the most turbulent periods in the markets are those where monetary traded volume rises and the monthly number of new investors is also elevated. However, while the number of new retail investors in 2019 (94.000) is comparable to that in 2021 (88.000), the composition in terms of age of the retail investors has shifted between the two years. In 2019, there were 5.500 18 to 29 year-old new investors, while in 2020 and 2021 this was 14.400 and 12.800, respectively. In relative terms, this implies that in 2019 young new retail investors made up 5.8 percent of all new investors, while in 2021 this was 14.6 percent. Clearly, young new Belgian retail investors continue to show increased interest in investing even though the initial turbulence at the start of the COVID-pandemic has settled.

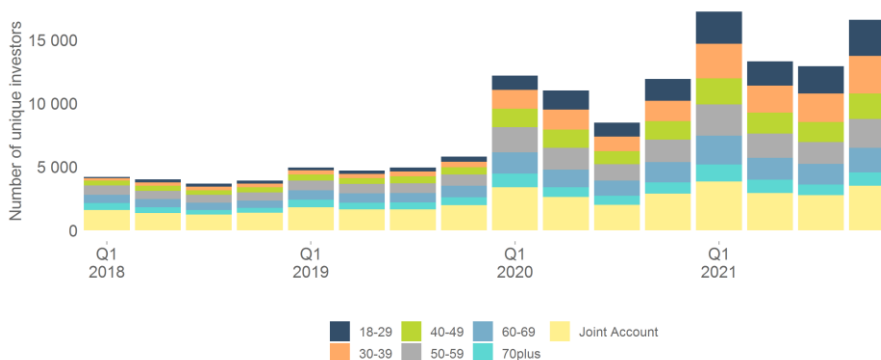
¹ As all so-called zero-cost neo-brokers are foreign and thus outside the scope of this article, some younger Belgian retail investors whose behavior might differ from those trading through Belgian brokers might be excluded. Including them would give only a very partial picture of their trading behavior.

Figure 3: Number of new Belgian retail investors (from July 2019 to December 2021)



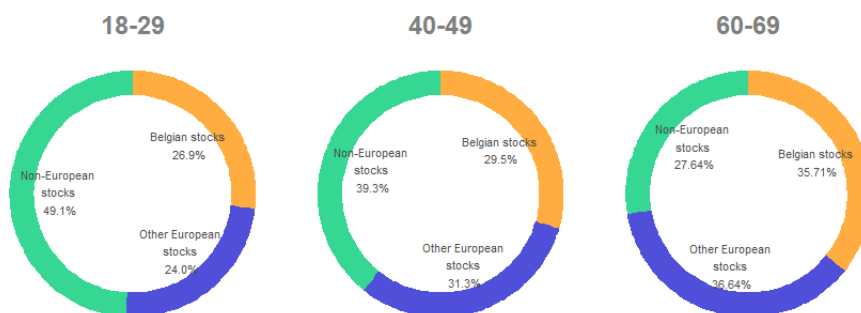
As the dataset exclusively contains quantitative data and there is no qualitative assessment of the motivation behind the trades, it is impossible to determine the reason for the current engagement of younger traders. Low-yielding conventional savings products, ease of access through trading apps from conventional brokers, potential influence of (social) media, etc. could all explain why young people are being drawn to investing. Additionally, new products that quickly offer the ability to create a diversified portfolio through the purchase of a single instrument at conventional transaction costs could also decrease the bar for some individuals. Figure 4 shows how the number of unique investors in ETFs has truly taken off since the first quarter of 2020, with especially younger retail investors accounting for a substantial chunk of overall investors in ETFs. There were 1.800 young investors aged 18-29 investing in ETFs in 2019, while this increased more than six-fold to 11.500 in 2021. Admittedly, ETFs are heavily traded through discretionary trades by portfolio managers implying that older age classes whose wealth is likely more concentrated in such portfolios are indirectly trading ETFs. Nevertheless, this evolution does show how ETFs are successful in engaging young retail investors directly.

Figure 4: Number of unique Belgian retail investors in ETFs by age category



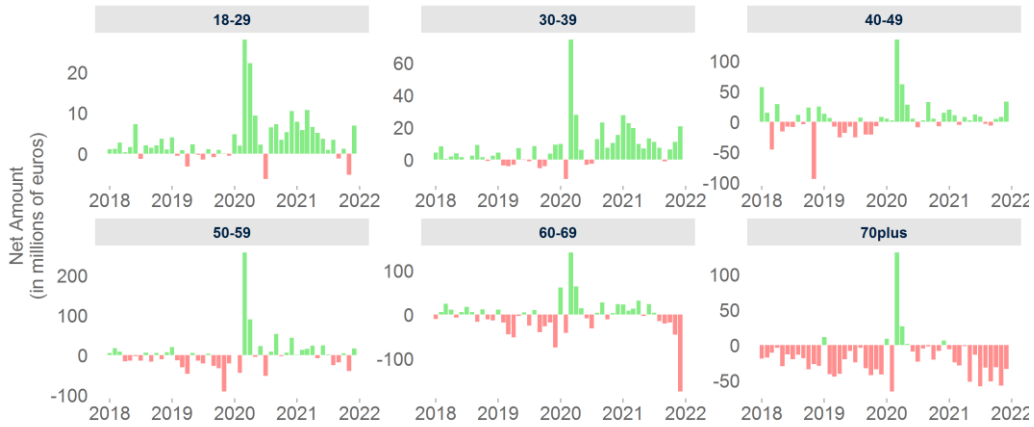
The increased ease of trading foreign stocks and the media attention to some prominent companies also imply that young Belgian retail investors have a more international outlook in terms of their trading behavior. Figure 5 compares the breakdown of the total traded amount by origin of the stocks. It does so over three age categories: 18-29 year, 40-49 year and 60-69 year. As one moves from older to younger generations, the fraction of the amount traded in Belgian and European stocks decreases, while the fraction traded of non-European stocks increases. At the outset, one might be tempted to say that younger generations have a more international outlook than their older counterparts. However, it is relevant to note that a certain level of hysteresis in terms of the stocks traded is likely to exist. If one bought more Belgian stocks when he/she was younger, possibly as a result of lesser availability of non-European instruments, one is also more likely to be trading in those same stocks when he/she is older, even if just to liquidate their positions.

Figure 5: Comparison of the share of monetary trade volume in non-European stocks, European stocks and Belgian stocks for retail investors aged 18-29, 40-49 and 60-39



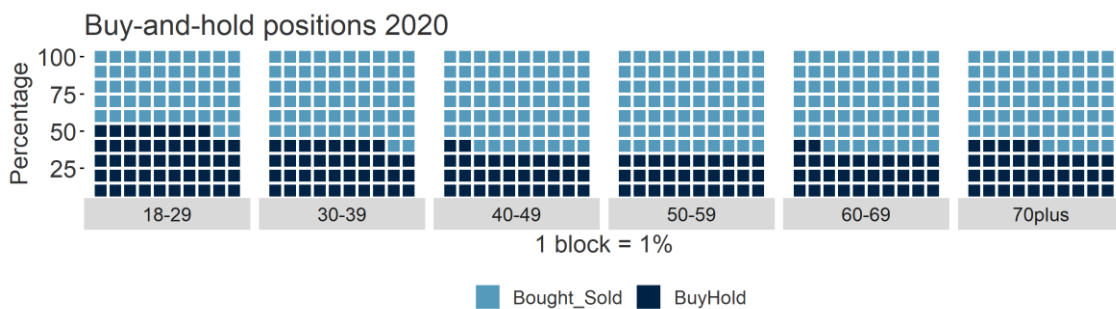
Generally, in economics it is assumed that individuals follow a life-cycle approach to smooth their consumption over their lifetime and thus save when income exceeds consumption and spend when consumption exceeds income. An open question in this respect is whether the younger generation of retail investors applies such a methodical approach to investing and thus as a group acquire more assets (positive net purchases). The flipside should be that older generations liquidate their positions (negative net purchases). Indeed, Figure 6 suggests that 18 to 29 year-olds are consistently purchasing more stocks and ETFs than they are selling (as are people in their thirties), while those older than 70 are mostly selling their assets. While this does not exclude the possibility that some individuals might use stock markets for pure speculative purposes, as a group this evidence does not emerge for young investors.

Figure 6: Net monetary traded volume (total purchases - total sales)



Additionally, speculative behavior by traders should translate into more frequent reversing of previously held positions, i.e. buying a stock and then selling it very soon afterwards. However, upon inspecting the portfolio positions in Figure 7, it becomes clear that younger retail traders are holding on to positions more (“Buy-and-hold”) than their counterparts in other age categories. Hence, despite possible preconceptions related to their age, younger retail investors appear to be following a long-term strategy to their trading behavior.

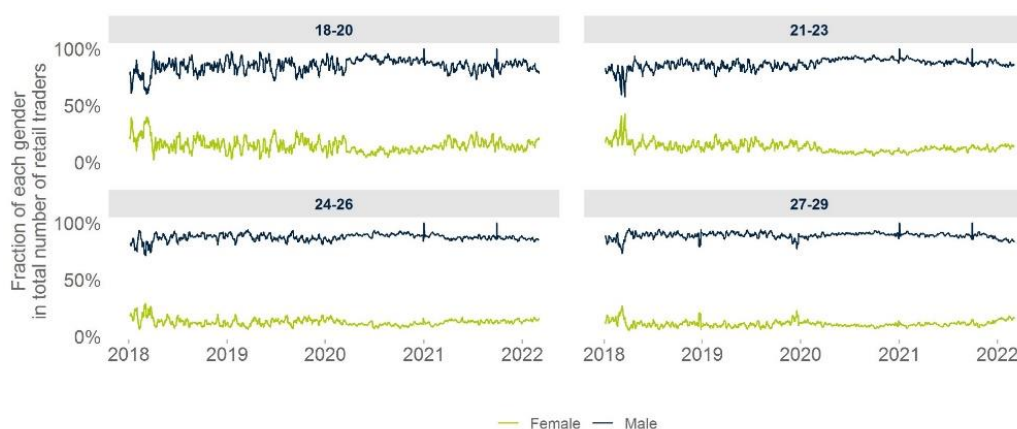
Figure 7: Percentage of positions held or sold for stocks acquired in 2020



Finally, Figure 8 focuses on the fraction of men and women among the youngest retail investors. In general, retail trades are overwhelmingly executed by men. Women made up about a quarter of all active retail investors in 2021. However, there is strong variation over age categories. The fraction of

women starts to increase from 50 years of age onwards, a phenomenon for which a myriad of explanations could be relevant. However, amongst the retail traders under the age of thirty, discrepancies are also noticeable. For instance, retail investors in the very youngest of categories (18 to 20 year-olds and 21 to 23 year-olds) show higher fractions of women which fade thereafter. It remains clear though that even among younger generations, trading remains male-dominated.

Figure 8: Division men/women amongst youngest retail investor groups



Conclusion

This article explored how young Belgian retail investors act as a group and has five key messages. First, the stock market keeps on attracting new and young investors, with young investors making up a larger fraction of all new investors than before the start of the pandemic. Secondly, younger retail investors show great interest in investing in ETFs. Thirdly, the younger generation applies a more international outlook in its investments than older generations, with non-European stocks making up larger fractions of the total traded volume compared to older generations. Fourth, young investors are net purchasers of stocks and hold these investments for a longer period than other groups, confirming that they are building their portfolio in a sustained way. Finally, even among younger investors, retail investors are predominantly male.