Retail Investor Trends

Quantifying the impact of retail activity

July 2020

Corporate Advisory | **Insight**

Contents

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Key Takeaways

- The wide-spread adoption of zero-fee trading by the brokerage industry began with Interactive Brokers announcing its "IBKR Lite" offering on 9/26, which was followed by Schwab and TD Ameritrade saying they would eliminate all commission fees for online U.S stock, ETFs and options trades in early October (CNBC). The broker price war, coupled with the growing popularity of mobile trading applications such as Robinhood, has set the bar to entering the investing world significantly lower for retail investors in recent months.

- Alongside this downward pressure on trading fees, recent market volatility due to the pandemic, a loss of various entertainment options, and a cash influx from stimulus money has fueled a popular narrative (this, this and most recently, this) that new retail investors have been a key driver behind elevated trading activity, the market's significant rally and recovery from YTD lows.

- In order to quantify this impact from retail investors, our teams analyzed activity in custodial accounts associated with the top retail brokers offering no-fee trading to this group and selected Charles Schwab, E*Trade, Interactive Brokers, National Financial (Fidelity's retail arm), Robinhood, TD Ameritrade and Wells Clearing. These 7 custodians were selected as representing individual-driven, pure play retail accounts compared to many retail custodians that are more representative of wealth management activity or those that share custodial banks with institutions/hedge funds.

- Our data indicates that retail trading volume as a whole has increased in recent months, but this increase has largely accompanied an overall increase in market volume, leaving retail investors as a relatively consistent portion of daily trading volume across our client base.

- When broken out by market cap, smaller companies consistently see retail investors as a higher % of daily trading volume, but have also seen that proportion of volume remain relatively range-bound in recent months alongside an uptick in overall trading volume.

- On an overall ownership basis, retail accounts have seen a slight uptick in relative ownership, growing by 11.8% in total share count since 9/1/2019 to 6/19/2020 across our client base, when compared to institutional and hedge funds accounts as well. This indicates that while the group is accounting for a similar portion of daily trading volume, they are seeing a stronger bias towards buying compared to other groups.

- The trend in relative ownership also varied significantly across sectors, as retail investors were much more notable buyers of sectors that have been beaten down (Oil and Airlines/Hospitality a key highlight) and also of headline-heavy sectors (Healthcare a notable favorite with the focus on potential COVID treatments).

- Overall, we conclude that while retail activity has seen a YTD increase with varied impacts by sector/market, the cohort remains too small to be considered a primary driver of equity price movements. Institutions & hedge funds remain the key drivers of market-wide activity. The variances at the sector level also indicate it is important for issuers to understand their own relative impact from this group.

Retail Volume Trends

The chart below highlights the average daily percentage of volume by retail custodians since most online platforms shifted to no-fee trading, showing retail volume has been relatively consistent between 3% and 4% across the market (gray bars in chart below).

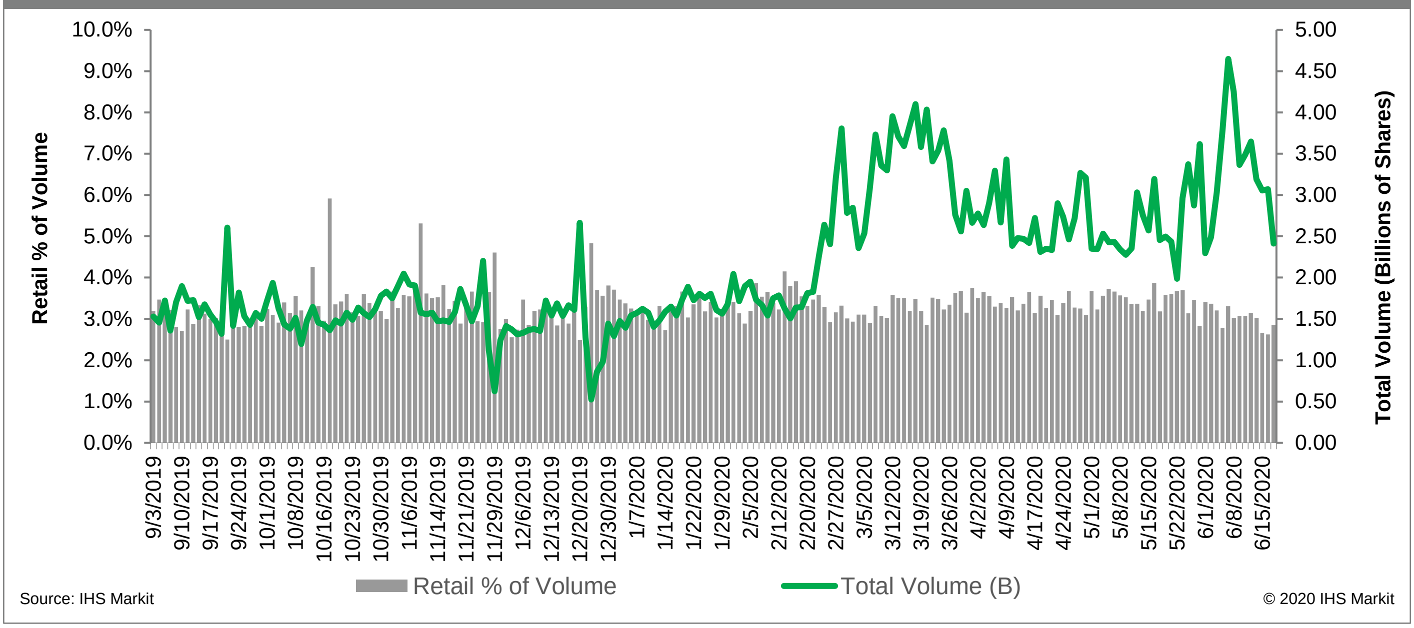
The data indicates that retail investors remained relatively consistent in their overall and relative amount of daily volume in the first few months of widespread no-fee trading at the end of 2019.

However, in recent months overall market volume has increased significantly as the market saw the onset of COVID-related volatility (green line in chart below). Average daily volume across the analyzed companies increased 84% from mid-February through late June, compared to the five months prior. Over this time frame, retail investors have remained consistent in their daily proportion of market volume, meaning that their total amount of volume has increased in order to maintain that percentage.

This data suggests that retail investors are more active as a whole, but are not likely to have had an outsized impact on market performance in recent months.

Of note, among the retail custodians we analyzed the Robinhood custodian accounted for the least amount of total volume. While there were select securities that Robinhood was significantly more active in, from a market-wide perspective retail brokerages such as TD Ameritrade, Charles Schwab and E*Trade were responsible for much more retail activity.

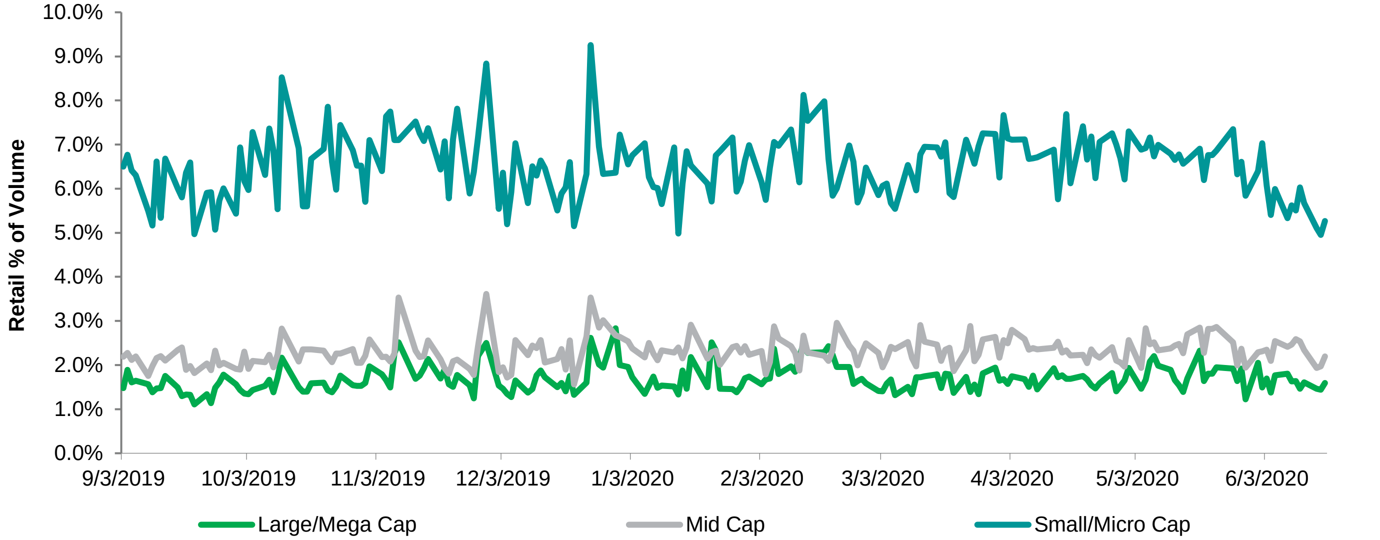
Retail % of Volume



The second chart below breaks out this percentage of daily volume by market cap. We see retail investors accounting for a larger proportion of daily volume for smaller companies as historically the limited liquidity of these issuers attracts less high-frequency traders. This leads to both retail and institutional activity representing a higher percentage of overall trading volume.

For example, previous analyses have shown that the portion of volume accounted for by institutional activity across the S&P 600 Small Cap on average is historically ~12.0% higher than the S&P 500 and ~4.9% higher than the S&P 600 Mid-Cap. Retail investors are likely also attracted by generally less expensive per share prices for small cap companies as well. However, the impact retail investors have on daily volume across all market caps remains range-bound over time in line with market-wide trend seen above.

Retail Volume by Market Cap



Source: IHS Markit

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Retail Ownership Trends

Overall data supports retail accounts seeing an increase in ownership year-to-date of ~11.8% across the market. However, this growth comes off of a relatively small base as the group accounted for significantly less ownership than institutions and hedge funds.

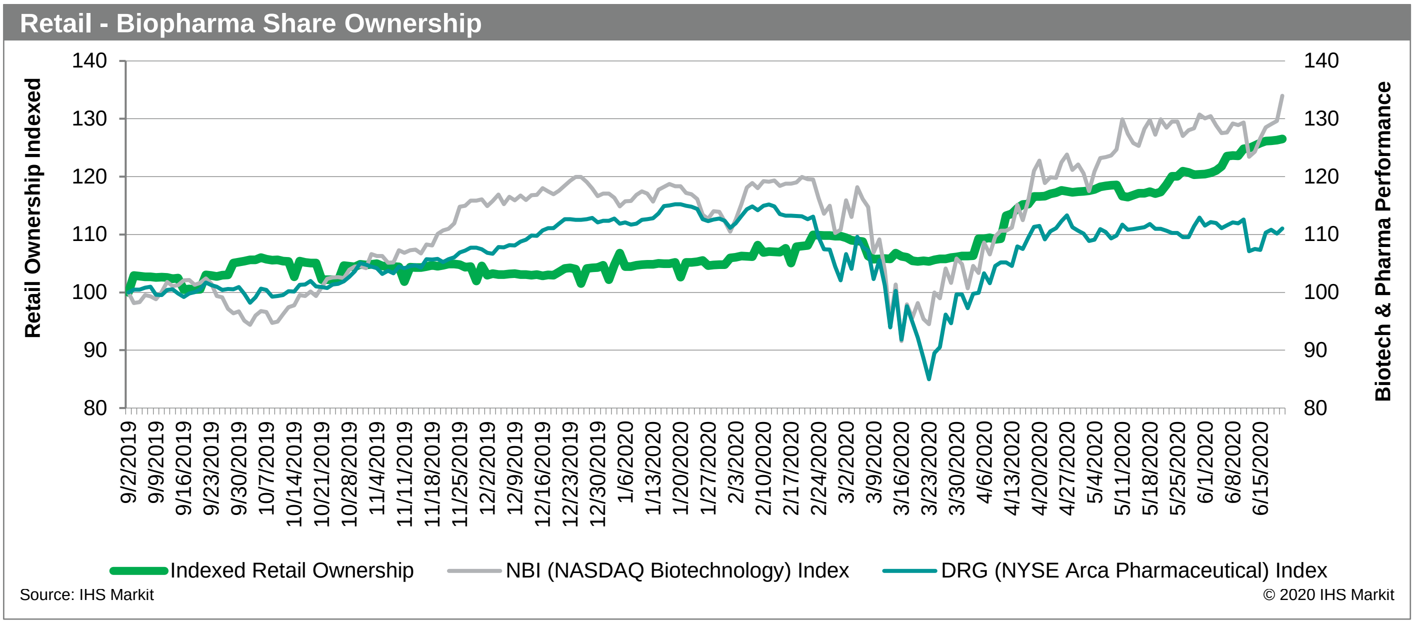
This growth of 11.8% is not enough to have driven the market-wide rally in recent months, though it is likely a small contributing factor. Importantly though, the growth of retail ownership has varied significantly by sector across the market. Below we have highlighted a few sectors where the growth in retail ownership has outpaced that of the broader market and might be a larger contributing factor than elsewhere.

Biotech & Pharma

In the fourth quarter of 2019, retail ownership in the biopharma space was steadily increasing as it grew by 5.0% throughout the period. In the first couple months of 2020, retail ownership increased by roughly 3.5% in both January and February, however, in March we saw retail ownership contract by 2.9%.

We saw the bulk of the market selloff occur in March, which likely played a factor in retail's subdued ownership figures. In the aftermath of the downturn, retail investors looked to put money back to work, as ownership levels rose by 10.5%. In the chart, retail ownership and the NBI have a positive correlation in the April-June period, as both the index and ownership steadily increased during the time frame, suggesting retail investors were bullish on biopharma names leading the recovery.

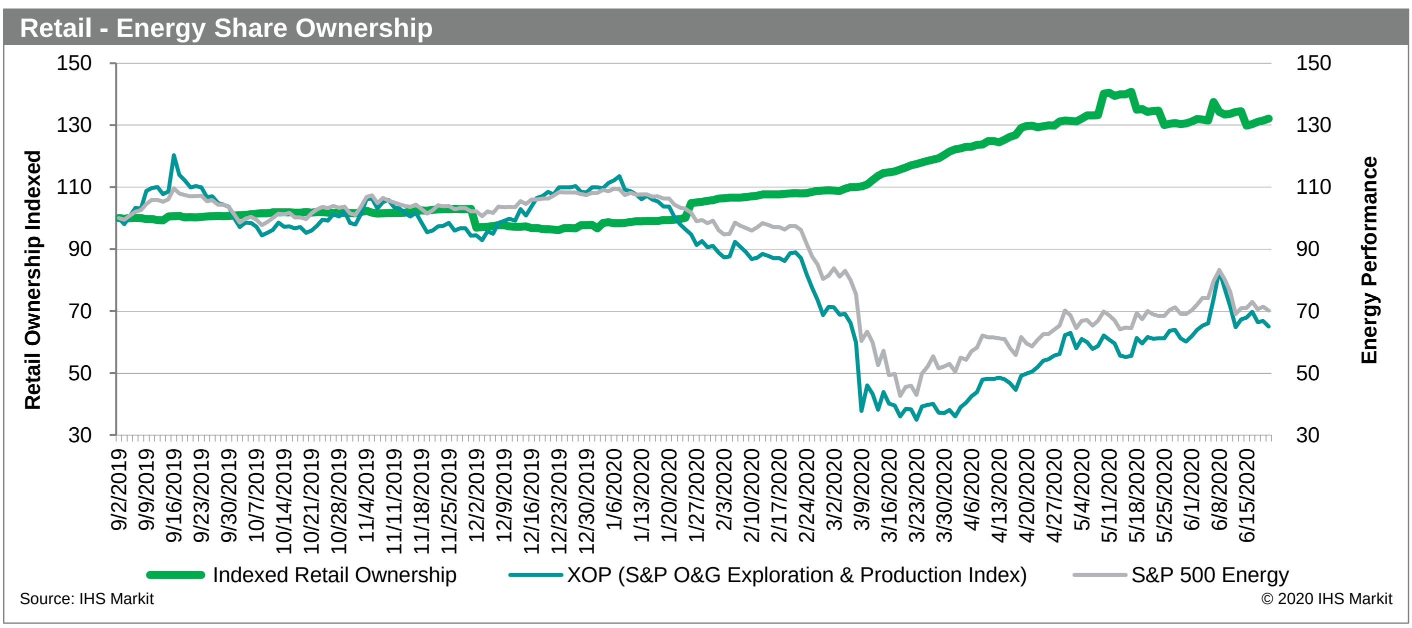
Specifically, in April, we saw a huge jump in retail shares owned from 4/16-4/17 when a medical publication (STAT) reported that a Gilead (GILD) antiviral treatment was driving "rapid recoveries in fever and respiratory symptoms" for individuals with COVID-19. In the last couple months of Q2'20, retail growth returned back to normal as it grew by 2.4% in May and 5.0% in June.



Energy

Retail ownership across Energy equities experienced a steady ascent since year end with the largest monthly increase of 11.4% occurring in March following an all-out price war between Saudi Arabia and Russia. Total ownership by the retail cohort across our Energy client base increased by 32.1% since September 2019, peaking in May before levelling out likely due to a recovery in oil prices as governments started to ease lock-down measures.

Of note, the Robinhood custodian experienced the largest growth in total shares held among all retail custodians by far, witnessing a 16.5x increase between September 2019 and June 2020 with Interactive Brokers (1.9x) and E*Trade (1.6x) following suit. Our analysis further indicates issuers that trade below a $3/share level experienced a whopping 89x increase, on average, in Robinhood ownership with small-cap Exploration & Production stocks seeing the biggest growth. Interestingly, one common factor between these issuers is they all experienced a >65% decline in YTD share prices, suggesting mobile app traders have a preference towards single-digit share prices and ETFs that experienced aggressive valuation compression.

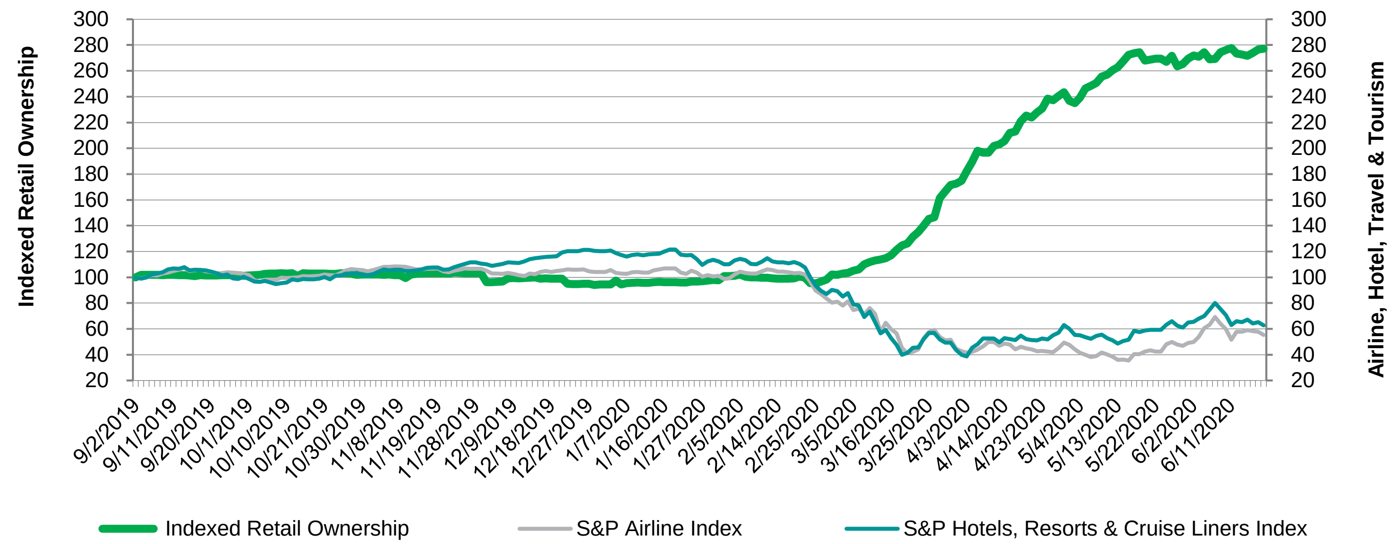


Airlines, Travel, & Tourism

Following the equity market crash relating to COVID-19 beginning in early March, retail investment in travel and tourism related stocks, particularly Airlines, Hotels, Resorts and Cruise Lines, soared as retail investors looked to "buy the dip" and speculate on a quick recovery in the sector.

Overall, in a sample of our clients in the space, retail investment as a portion of total shares outstanding increased significantly between September 2019 and June 2020, rising by 177%. March saw the fastest one-month upsurge over the period, with an increase of 68.0%, while growth continued to increase at a declining rate in subsequent months to 37.9% in April, 12.1% in May and 4.5% in June up to 6/19. Interestingly, despite the historic rise in retail investment, this has had little impact on the broader S&P Airline Index and S&P Hotel, Resorts & Cruise Liners Index in terms of pricing. Based on our data, if anything, retail investors are simply providing liquidity to other market participants while having little effect on price discovery.

Retail - Shares Held in Airline, Hotel, Travel & Tourism



Source: IHS Markit

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