



ETPs are
empowering the
next generation
of investors

The shifting profile
of retail investors
March 2022

About the research:

Between October 12 to October 22, 2021, Nasdaq, in partnership with Morning Consult, conducted an online poll targeting a sample of 2,000 retail investors. The data was weighted to approximate a target sample of retail investors based on age, ethnicity, gender, educational attainment and region. Results from the full sample have a margin of error of plus or minus 2 percentage points.

The retail investment market has become a more powerful segment shaping market activity. But the growth in this market is far from uniform as younger investors turn to a broader array of channels for information. This study highlights the differences between generations and exposes the risk of using a one-size-fits-all approach when appealing to retail investors.

Summary: younger generations are driving big changes in the retail investment market

Retail investors have become a more influential segment that is helping to shape market activity in measurable ways. While this trend has been underway for some time, the pandemic contributed to a spike in U.S. retail stock trading activity and heightening trading volumes. While activity has eased, it remains elevated.¹

The shift in the retail market, however, is far from uniform. Younger investors seeking more accessible options to grow their money are helping to drive this change. While Gen X and baby boomers will continue to be a client base that cannot be ignored, the emerging influence of Gen Z and the growing earning power of Gen Y are introducing new opportunities in a highly competitive market.

Issuers, financial advisors and investment firms must innovate and adapt to respond to changing needs of investors. The firms that understand how the market is shifting will be in the best position to break through the clutter and attract new clients.

How is the retail investor market changing? Our key findings:

1. Competition in brokerage platforms is fierce. Innovations in technology and commission-free trading have made investing more accessible, especially for younger investors.

2. Younger investors are more active – checking their accounts and making investments more frequently and doing their own research before buying or selling.

3. Investors, including younger generations, are looking beyond traditional investments for alternative options to grow their money, including ETPs, options and cryptocurrencies.

What's not changing? Financial expertise is still important for every demographic.

- Across all generations, investors trust financial advisors more than any other resource when making an investment decision.
- While Gen Z and Gen Y use a variety of resources, such as online discussion boards and social media, to do their research, financial advisors still ranked higher as an important source of information. For those that use social media, content from financial experts is the most useful.
- Many investors, including younger cohorts, are either currently investing in ETPs or are interested in doing so in the future. However, they can benefit from additional education or tools to help them make informed decisions.

¹Retail stock trading still above pre-pandemic levels in US – S&P Global Market Intelligence, January 19, 2022

A generational shift – a snapshot of who they are

From the baby boomers to Gen Z, the financial outlook of each generation has been shaped by transformations in technology, world events and the global economy. Here are some of the demographic factors to keep in mind as you read this report.

Gen Z

1997-2012



Financial outlook:

Gen Z is just starting to enter their mid-20s. They've finished their education and are entering the workforce.



Information sources:

- Highly diversified, seeking investment insights from financial advisors and traditional news to podcasts and social media.
- Online discussion boards are their most popular platform.

Gen Y

1981-1996

Financial outlook:

Gen Y is about to turn 40. With their work experience, they're entering their peak earning years.

Information sources:

- Diversified, with a higher preference for financial publications and family and friends.
- Digital and social media platforms factor into investment decisions.

Gen X

1965-1980

Financial outlook:

Gen X is still working and earning good incomes but will start thinking about retiring in the next 10 years. They'll need to start drawing an income from their assets.

Information sources:

- Greater reliance on financial advisors and financial publications.
- Broader use of traditional media (TV and newspapers) vs. younger generations.
- Social media and other digital platforms less likely to factor into investment decisions.

Boomers

1946-1964

Financial outlook:

Baby boomers are focused on managing their retirement without outliving their savings.

Information sources:

- Strongest dependence on financial advisors and, to a lesser extent, financial publications.
- Social media and other digital platforms unlikely to factor into investment decisions.

Gen Alpha (born between 2012 and 2025) will be turning 20 in the next 10 years. What will their investing future look like?

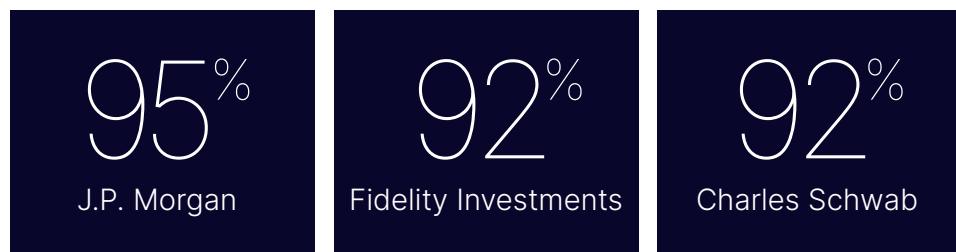
Surrounded by smart technology and virtual learning platforms, these digital natives have lived through the turbulence of a global pandemic. What resources will they turn to for investment advice?

What platforms are retail investors using?

The largest platforms from traditional investment companies continue to have high brand awareness among all generations of investors. They have accumulated trillions of assets from the older generations who trust in well-established, stable companies to manage their wealth.

Big brands dominate the space – especially amongst older retail investors

When asked which companies they were aware of, the following scored the highest among all respondents, regardless of age:



Fidelity Investments was the most highly used brokerage for Gen X (40%) and baby boomers (32%). However, Gen Z and Gen Y have turned to the newer companies on the market.

New entrants are winning over younger investors

The competitive landscape has exploded with new players, which have been successful at tapping into the younger market. With Gen Z especially, the strength of the big brands has started to wane.

What's the appeal?

Commission-free investing and easy-to-use digital tools help investors access new types of products. A wider swathe of investors can now access the financial markets without going through an advisor or having a large amount of assets.

Gen Z

The youngest investors ranked Robinhood the highest (86%) when asked if they were aware of the company. They were aware of the big brand firms, but when it came to choosing a platform, the big brand firms ranked far below Robinhood:

- Robinhood – **64%**
- Vanguard – **38%**
- Fidelity – **29%**
- Ally Invest – **29%**

Newer platforms are gaining a foothold, including Wealthfront (23%), Thinkorswim (21%) and Rally (21%).

Gen Y

The picture is slightly more mixed for Gen Y investors as many still use big brand firms to manage their investments. However, Robinhood still came out on top.

- Robinhood – **50%**
- J.P. Morgan – **43%**
- Fidelity – **42%**
- E*Trade – **36%**

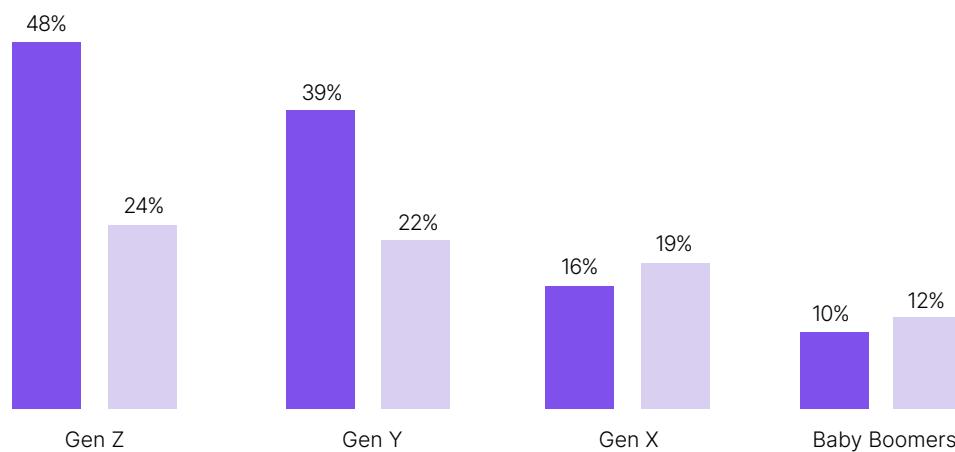
Gen Z and Gen Y take a hands-on approach to managing their portfolios

Younger generations are not only more active in their accounts compared to older generations, but they're also spending more time researching before they invest.

Younger investors are more likely to actively monitor their portfolios and make trades: By a significant margin, Gen Z and Gen Y are far more likely to look at their investment portfolios several times a day and make trades compared to the older generations.

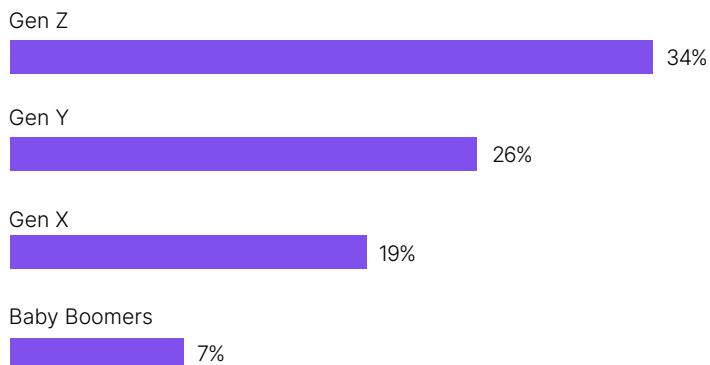
How often do you check your investment portfolio?

- I check several times a day
- I check at least once a day



How often do you make individual trades?

- I make trades a few times a week

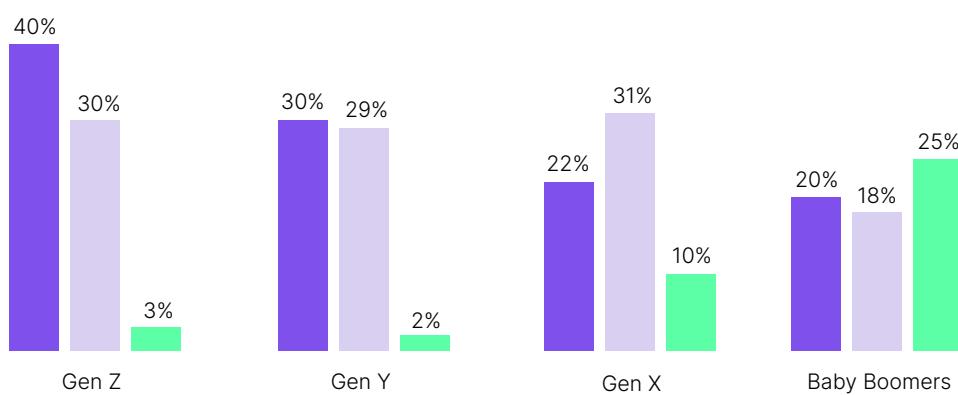


Young investors are doing their own research, but trust financial advisors for credible information

Younger investors are not only looking at their portfolios more often, but they're also far more likely to spend time researching before they make an investment. On the flipside, the older the investor, the less time they spend researching. Almost a quarter of baby boomers don't spend any time at all doing investment research. There may be many reasons; they may have more investment experience to draw from or they may rely on their financial advisor to do the research on their behalf.

How much time do you spend researching an investment before you buy or sell?

- I spend at least 1 hour but less than a day
- I spend at least a day but less than a week
- I don't spend any time researching investments before I buy or sell



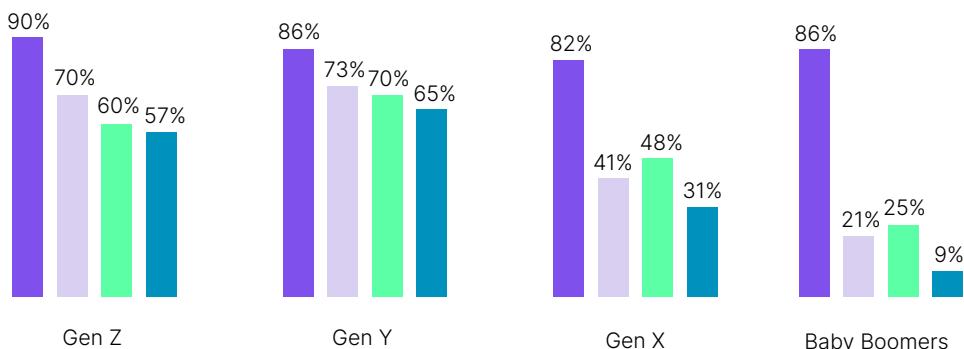
The importance of credible financial advice

Younger generations trust digital sources, such as podcasts, online discussion boards, social media and other online communities (e.g., Reddit), compared to the older generations. In particular, for those that use social media, YouTube and Facebook were the most popular applications.

However, across all generations, financial expertise is key – financial advisors rank the highest for being trustworthy. For those that use social media, 68% said financial experts generate the most useful content.

How trustworthy do you consider each of the following when making an investment decision?

- Financial Advisor
- Online Discussion Boards
- Podcasts
- Social Media



A new opportunity for ETPs

As Gen Z and Gen Y move into their prime earning years, they are looking for easy-to-use platforms to make investments and manage their portfolios. They're also hands-on and active investors.

How they manage their portfolios isn't the only change. With digital, easy-to-use platforms, younger generations have more access to other types of products beyond the traditional mutual funds of their parents' generation.

Young investors want:

Greater product selection

Sophisticated research

Access to user-friendly digital tools

The following pages dive into ETPs in more detail.

- How do different generations view ETPs?
- What information are they looking for?
- How can ETP issuers and financial advisors help people of all generations become more effective ETP investors?

Who's investing in ETPs?

To start investing in ETPs, you need to know they exist. Overall, retail investors across generations are aware of ETPs although younger generations have slightly higher levels of familiarity of ETPs than the older generations.

How familiar are you with ETPs?

■ Very or somewhat familiar

■ Not very or at all familiar



Making the investment

A significant proportion across generations have invested in ETPs or may do so in the future:

- **57%** currently invest in ETPs or did so in the past.
- **29%** never invested in ETPs but would consider them in the future.

In comparison, stocks and mutual funds scored the highest in terms of current or past investments. Cryptocurrency is also quickly becoming another popular investment vehicle with nearly half of respondents saying they invest in this asset, while options were slightly less popular.

Individual stocks

91% currently invest in individual stocks or did so in the past.

Only 7% have never invested but may consider them in the future.

Mutual funds

73% currently invest in mutual funds or did so in the past.

19% have never invested but may consider them in the future.

Options

39% currently invest in options or did so in the past.

34% have never invested but may consider them in the future.

Crypto-currency

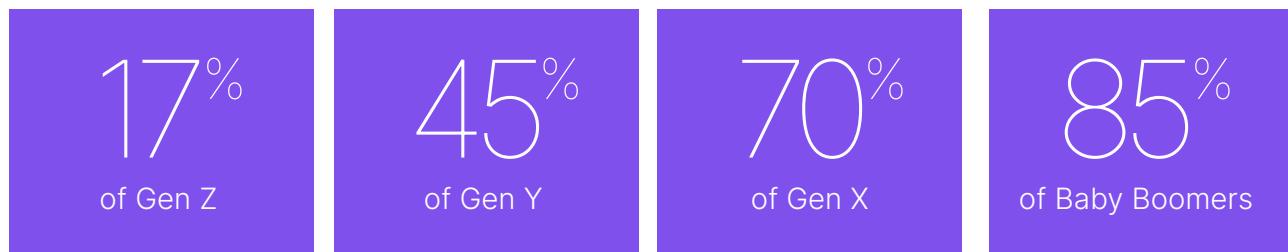
47% currently invest in cryptocurrency or did so in the past.

22% have never invested but may consider them in the future.

How much money does each generation invest in ETPs?

Meanwhile, while baby boomers may be less familiar with ETPs compared to their younger peers, those that do invest in ETPs do so at the highest level.

Invest more than \$5,000 in ETPs:



Note: income would likely be a factor in how much each generation has to invest in ETPs, with 64% of those earning \$100,000+ investing more than \$5,000.

A knowledge gap – and an ETP opportunity

A growing number of investors are familiar with ETPs and consider them as an investment opportunity. However, most investors have only a surface-level understanding of the concepts that could help to make a good decision.

Key considerations – what ranked the highest?

- Expected performance – **80%**
- Historic performance – **80%**
- Price – **77%**
- Investment objective – **77%**

Key considerations – what ranked the lowest?

- Sharpe ratio – **48%**
- Tracking error – **55%**
- Standard deviation – **57%**

While 57% of potential ETP investors understand they should compare the ETP to an index, few understood the importance of tracking error and other key metrics like standard deviation and the Sharpe ratio, which all ranked the lowest in importance when considering investing in an ETP.

Trading strategies are also a mixed bag, with 25% of ETP retail investors responding they were unfamiliar with the various options, such as using limit orders to manage pricing volatility. Providing educational materials that explain the best ETP trading practices and how to measure ETP performance from a risk and tracking error perspective can provide another touch point to connect with investors.

Our view: Empowering the next generation of ETP retail investors

A generational shift is underway in how younger retail investors use digital and social media to do their own research and help them make informed decisions. As their earning power grows over time, platforms that invest in the right marketing strategies and engagement activities will position themselves for sustainable, loyal clients for the long-term.

The role of financial advice, education and guidance has never been more important as they look to alternative assets beyond the traditional stocks and mutual funds.

Here's how you can put this research into action:

1.

Create educational materials to bridge the ETP knowledge gap by covering ETP trading best practices, key performance and risk statistics, and other factors to consider.

2.

Review your product and marketing strategy based on your target investor.

3.

Financial advisors are trusted to provide credible information about ETP investments. If you're not already doing so, start using Facebook, YouTube and online communities (e.g., Reddit) to share these opportunities.

Want a deeper dive?

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