Q3 2023

FINIMIZE MODERN INVESTOR PULSE

WEALTH MANAGERS' WAKE-UP CALL

5 July 2023

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Introduction

Retail investors are stepping up their game. They know what they're looking for from advisors – both human and machine – and if their needs aren't being met, they're not hesitating to take their business elsewhere or figure it out for themselves.

That's come through loud and clear in our Q3 Modern Investor Pulse: we put the spotlight on over 3,800 retail investors from our million-strong global community to learn how they feel about markets and investing – and crucially, how they plan to act. For financial services firms, our data shows that educating retail clients on the value of financial advice right now is key to retaining them in both the short and long term. Companies that get this right could gain an edge, while those that don't might find themselves playing catch-up.

Happy reading,

Max Rofagha
CEO & Founder

Pulse Highlights

71% think the global stock market will be higher a year from now

40% are planning to invest between $5,000 and $50,000 into the markets in the next 12 months

63% of modern investors would like to manage their own funds in the future

51% feel that the financial services industry doesn't provide enough advice through the products and services on offer

66% believe AI has the potential to solve the "advice gap" but **only 14% currently use it to make investment decisions**

33% believe AI stocks are "overhyped" but AI stocks are still a popular bet

Retail investor trends in Q3 2023

On the face of it, the situation has all the makings of a tale of woe, with central banks hiking interest rates to their highest levels in over a decade and still-high inflation eroding the value of cash and putting pressure on consumers' spending. But the rise of artificial intelligence (AI) has been one of the biggest driving forces of the stock market in the first half of the year. The rally in stocks like Nvidia (up over 190%), Microsoft (up about 40%), and Google-parent Alphabet (up over 30%) – to name just a few – has helped drive the S&P 500 back into "bull market" territory, despite the strong headwinds.

And, granted, there are certainly risks in the short-term: history shows that while the S&P 500 has risen 43% in the first year of a bull market, there's usually at least one drop of between 10% and 20% along the way. But in the long-term, there are opportunities aplenty: bull markets, which typically last five and a half years, give disciplined, long-term investors (like over three-quarters of our survey respondents) a chance to build significant wealth. This time around, some investors are betting that AI has driven a fundamental change that will supercharge productivity and lift companies' earnings – and that could mean stocks have more upside than other investors think.

Our Modern Investor Pulse spotlights over 3,800 retail investors from our million-strong global community – a group of forward-thinking, affluent, young investors eager to stay ahead of the financial curve. The report uncovers key retail investor trends: how they feel about markets, how much they plan to invest, and how trends like AI are shaping their financial futures.

Key figures from the Q3 2023 Modern Investor Pulse

Here's the preview:

71% think the global stock markets will be higher 12 months from now

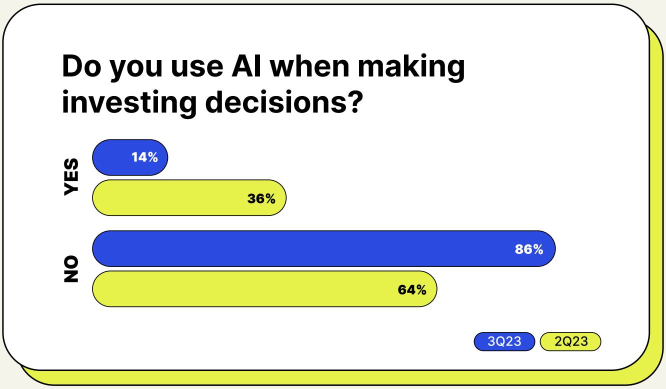
63% would like to manage their own funds in the future

51% feel like the financial industry does not provide them with enough

66% believe AI has the potential to solve the advice gap

Despite the rise of AI, retail investors want greater control of their wealth

The rise of AI in every industry has been a megatrend this year, and the world of investing has been impacted too. That said, only 14% of respondents said they actually use AI when making investing decisions. That's down from 36% who were using it three months ago – which suggests that early interest may have dropped off because the tools haven't caught up with what modern investors are looking for just yet.



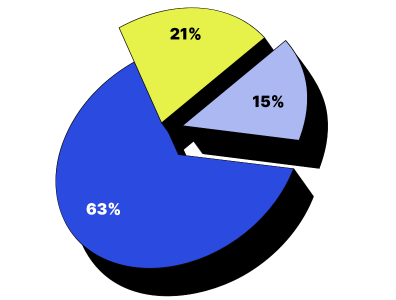
We also asked modern retail investors how they want to manage their investments in the future. While only 21% said they favored an automated solution, those aged between 25 and 50 years old were almost twice as likely to prefer automated investment services than those older than 50.

That could be down to older investors having more complex wealth needs as well as younger investors being more comfortable with automated solutions, having been more likely to have started their investing journeys mobile-first.

Max Rothery, VP Community, Finimize

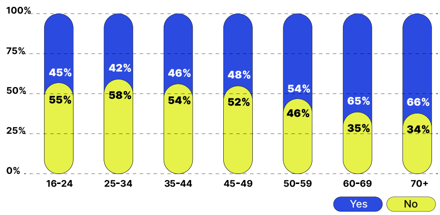
Only 15% of respondents said they'd prefer to delegate their wealth management to a financial advisor, while 63% said they'd prefer to manage their own investments.

Which of the below is most relevant to how you would like to manage your investments in the future?



Respondents' overwhelming preference for self-managing their investments could reflect the fact that 51% of them – particularly younger investors – believe that the financial service industry doesn't provide enough financial advice through the products and services on offer. Bearing those reservations in mind, it stands to reason that they'd have little faith in the industry's ability to meet their future needs.

Do you feel like the financial industry provides you with enough financial advice through the products and services it has on offer?



Either firms aren't up to the job or they are – but there's a gap in their product or in the way they're communicating with their clientele, resulting in investors not feeling understood or supported.

Carl Hazeley, VP Content, Finimize

Deep dive: The "advice gap" puts $20 billion of annual wealth manager revenue at risk

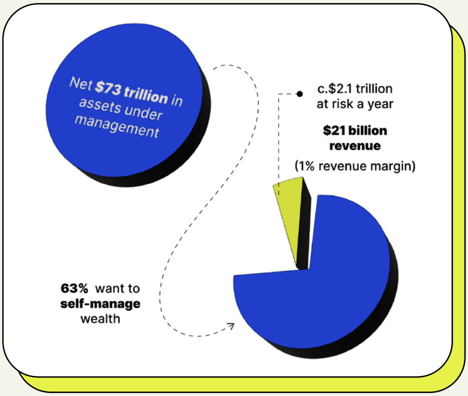
What is the advice gap?

The "advice gap" is the widening chasm between those who have access to financial advice and those who don't. There are a few kinds or "levels" of advice gap: the "affordable advice gap" affects those who want advice but are put off by high fees. And the "free advice gap" hits those who'd take free advice but can't find or access relevant free services – similar to the "awareness and referral gap", which is when people don't know where to look for help. These widening gaps push modern retail investors away from traditional advice services and eat away at their faith in the industry.

Why should I care?

Our survey data suggests a widening advice gap is contributing to modern retail investors' reluctance to rely on financial advisors and leading them to manage their wealth themselves. And if this generation of investors doesn't feel the current services on offer are accessible or relevant, wealth managers and financial advisors are at risk of losing out.

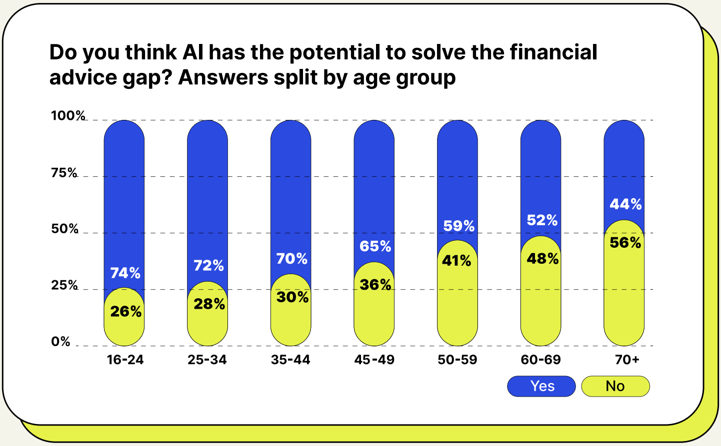
After all, there's an estimated $73 trillion of wealth (net of charitable donations) expected to transfer to the next generation over the next 22 years – approximately $3.3 trillion per year. Based on survey data showing that 63% of respondents would prefer to manage their own wealth in the future, that suggests $2.1 trillion of "assets under management or administration" are at risk each year. Assuming a 1% annual fee margin, that represents around $21 billion in revenue.



Across the pond, in the UK, there's an estimated £4.8 trillion (or $6.1 trillion) of wealth (net of charitable donations) expected to transfer to the next generation over the next 20 years – that's approximately £240 billion per year. Based on survey data showing 63% of respondents would prefer to manage their own wealth in the future implies £151 billion of "assets under management or administration" at risk each year. Again, assuming a 1% annual fee margin, that amounts to £1.5 billion in revenue.

What's the opportunity here?

Survey respondents were optimistic about AI's potential to narrow the advice gap: in fact, a whole 66% believed it could solve the gap altogether.



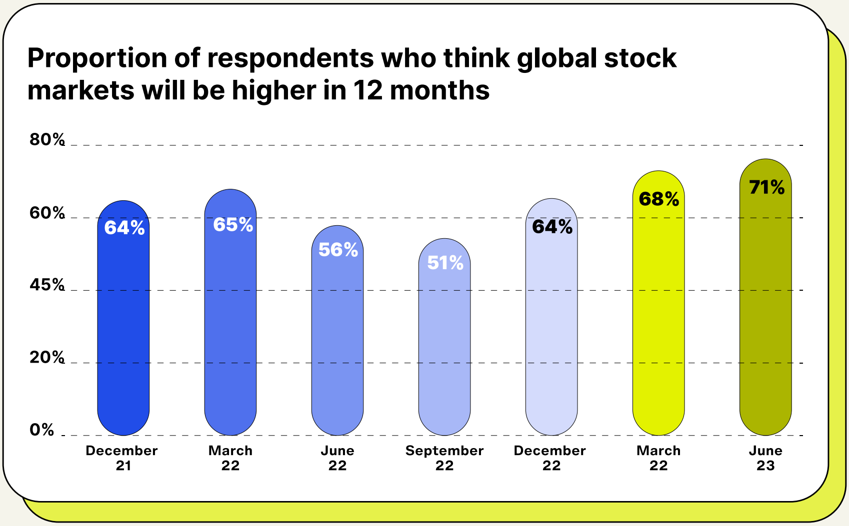
And younger investors were more optimistic than older ones, with an impressive 72% of 25 to 34-year-olds saying that AI has the potential to solve the advice gap. For wealth managers and financial advisors, that should be encouraging: winning over these potential customers could leave them well-placed for a rewarding long-term relationship.

It's the wealth managers that are being proactive at engaging the next generation of inventors that are set to succeed. There's a gap between how younger generations want to deal with advisors compared to how their parents or grandparents engaged. They don't just want to be told what to do – they want to feel empowered to make their own informed decisions. Digital is a big part of this, and firms that are slow to act on this will lose out.

Carl Hazeley, VP Content, Finimize

Retail investors are the most optimistic they've ever been

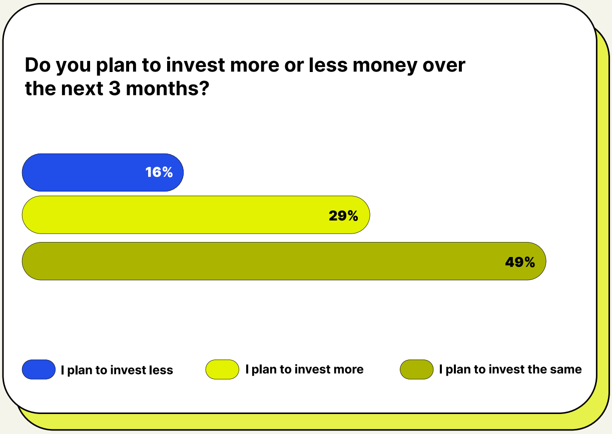
Investor optimism reached the highest levels we've seen since the survey began in 2021, with 71% of respondents betting the stock market will be higher a year from now.

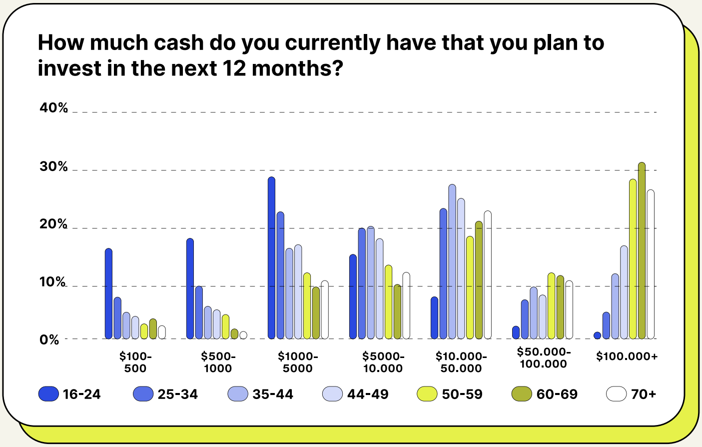


But that pickup in bullish sentiment hasn't changed how retail investors are behaving: 55% plan to take the same amount of risk with their investments over the next three months, and almost a quarter are planning to take less risk.

In fact, half (49%) of investors plan to keep steady with their investing plans, putting the same amount into markets as they have been so far. Slightly less than a third (29%) plan to invest more, and only 16% plan to reduce the amount they invest over the next three months.

40% are planning to invest $5,000-$50,000





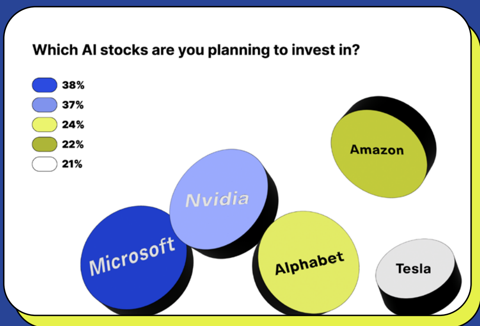
Looking more closely at modern retail investors' cash holdings shows that 40% of survey respondents are holding onto between $5,000 and $50,000 in cash that they plan to invest in the next 12 months, with little variation between age groups spanning 25 to 59. As expected, older groups between 50 and 69 tended to have larger cash piles, varying between $50,000 to $100,000, and $100,000 plus. But younger groups continue to demonstrate they're more affluent than they're often given credit for: almost 79% of 25 to 34-year-olds, for instance, had more than $1,000 in cash they plan to invest over the next 12 months. It's worth noting that there has been a dropoff in the amount of cash that respondents plan to spend: last quarter, a third of investors had between $10,000 and $50,000 they planned to invest in the 12 months that followed, a figure that's now dropped to 22%. In all likelihood, though, that reflects retail investors doing exactly what they said they would: investing, and therefore perhaps benefiting from generally positive stock market returns through the last quarter.

Last quarter's survey respondents had a lot of cash sitting on the sidelines, ready to invest. The data shows they've been putting money to work as they said they would, but this quarter's update shows there's still further to go.

Carl Hazeley, VP Content, Finimize

Microsoft and Nvidia are investors' preferred single-stock bets

Microsoft and Nvidia came out on top of retail investors' single-stock investment lists, which isn't too surprising considering their focus on AI this year. Amazon and Tesla, which were among investors' top choices last quarter, continued to rank highly, although slightly fewer respondents picked them out as beneficiaries of the AI trend.



In fact, the AI-fueled surge in the US stock market has nudged even the most cautious professional investors towards optimism. Meanwhile, retail investors have eagerly joined the ride, all propelled by a wave of AI-driven tech stocks that have dominated the US market's returns this year.

Given that five of the biggest Big Tech stocks account for the lion's share of the gains – and make up about a quarter of the key US stock market index – it's hardly surprising that the S&P 500 has returned to bull territory.

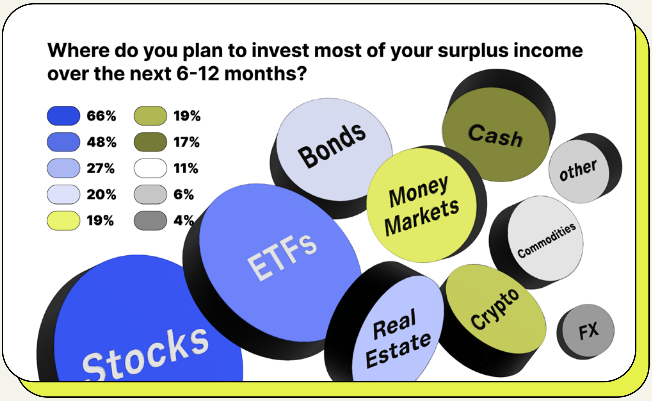
Carl Hazeley, VP Content, Finimize

A third of respondents, notably, said they were steering clear of AI, which they see as "overhyped" right now. That view might stem from the dramatic rise of stocks like Nvidia, which has seen a near-200% increase in 2023 – which could suggest investors are overly optimistic about both AI's potential and the company's ability to benefit from it.

Modern retail investors want to engage on fundamentals and alternatives

Half our respondents said they'd like to learn more about how to do fundamental analysis this year. That stands to reason: our last survey showed that amid the instability in financial markets and uncertainty around interest rates earlier in the year, retail investors were making fewer speculative bets and instead focusing on long-term fundamentals as well as secular trends they believe in. And with two-thirds planning to invest most of their additional income in stocks over the next six to 12 months, and almost half planning to invest in various exchange-traded funds, that demand for education appears to be closely tied to taking action.

44% of retail investors want to learn more about investing in alternative assets. That might not come as a surprise, either: investors have been looking outside of typical stock and bond market investments for returns for at least the last 18 months. And that coincides with almost 30% of respondents who are planning to put most of their extra cash into real estate in the next year.



Retail investors are taking action: now's the time for advice services to join them

Retail investors have become more sophisticated and independent. They've gone from handpicking stocks in a pandemic-fueled bull market to diversifying and stabilizing their investments with ETFs in the recent downturn. And now, as cautious optimism returns to markets, they're looking to the future and planning to manage their money themselves rather than entrusting it to an advisor. Retail investors are hopeful that AI could help close the advice gap and could usher in a renewed, tech-based relationship with the right wealth manager. But amid the great wealth transfer that's happening right now, independent financial advisors and wealth managers alike are at risk of losing out on billions. That's created a once-in-a-generation opportunity for forward-thinking individuals and firms that can adapt to the changing needs of the next generation of investors. Given the potential worldwide revenue at stake and retail investors' growing demand for advice and financial knowledge, wealth managers need to prioritize investor education. By doing so, they can better address investors' unique needs, especially in non-traditional investment sectors. Forward-thinking individuals and firms that can do this will benefit at the expense of their rivals.

Although we're seeing retail investors become more independent when it comes to their investments, that is likely to change when they have more complex financial situations to deal with, like inheritance. Wealth managers will play a crucial role at that point but need to engage with those investors today. That can be as simple as creating educational content, but one thing is clear; firms that are slow to act on a proactive engagement strategy will lose out.

Max Rofagha, CEO and Founder, Finimize

About the Modern Investor Pulse

The Modern Investor Pulse is a quarterly survey of retail investors who are part of the Finimize community. You can access previous surveys here.

Data for Q3/2023 collected in June, 2023
Number of respondents: Over 3,800

What is Finimize?

Finimize is an investing insights platform that empowers modern retail investors with daily bite-sized analysis from world-class analysts, and helps financial institutions engage with the modern investor.

Why is Finimize different?

With over one million subscribers to its newsletter and mobile app, Finimize is home to one of the biggest retail investor communities in the world. Over 70,000 attend its member-organized events each year.

Alongside its direct-to-consumer offering, Finimize has partnered with over 250 fintechs and financial institutions to support their efforts to engage with modern retail investors.

Why is it needed?

The retail investor community is set to account for 61% of global AUM by 2030. Some of the biggest global asset management firms in the world are firmly setting their sights on this growing market, with plans to release investment vehicles that specifically target retail investors. Finimize's ability to communicate to this audience – using smart, jargon-free, quality information – is closing the information gap for DIY investors. That's a massive draw for institutions looking for ways to engage and retain their retail investor clients.

About Finimize for Business

Understand, attract, and communicate with modern retail investors better than ever before.

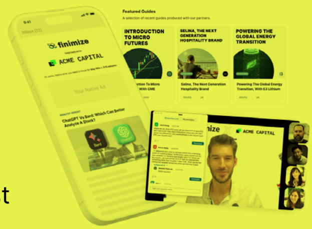
We've helped more than 300 businesses grow their businesses, including startups, scaleups, and long-established financial service firms. To do that, we leverage our insight-driven, community-informed expertise, and produce content designed to grow our partners' reach and help them engage with modern retail investors at scale.

Content Solutions

Jargon-free, unbiased, and actionable financial content that attracts market-leading engagement.

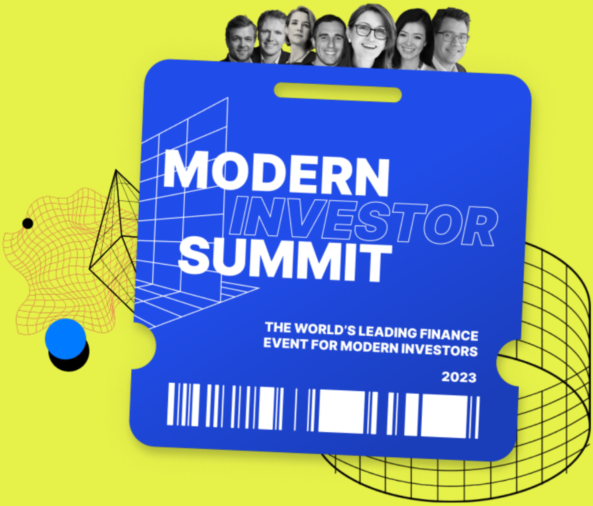
Meet the educational needs of a wide range of retail investors, from beginners to experts, with our content licenses and bespoke content solutions. You can seamlessly integrate the Finimize Content API while retaining maximum flexibility. That means you can give your customers the type of information that actually matters to them, in text and audio formats, thanks to our extensive tagging framework.

Promotional Solutions



Multi-channel campaigns that leverage our daily reach into a community of over one million retail and accredited investors.

Connect and grow with one of the biggest and most engaged retail investor communities in the world – an enormous opportunity for financial service firms. Discover a robust range of multi-channel campaigns, tailored around the way modern retail investors learn and access information.



Summits

An opportunity to directly connect with the most engaged members of our million-strong retail investor community.

The Finimize Modern Investor Summit is the world's biggest event of its kind: more than 15,000 investors joined the two-day summit to engage with industry experts like Tim Draper, Cathie Wood, and Mark Cuban. Choose from a highly impactful range of sponsorship packages to get involved, all designed to help financial services hit their marketing and business goals.

Contact

If you have questions, want to dive deeper into this data, or hope to use this analysis to build better connections with retail investors, contact business@finimize.com .

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