IHS Markit®

Retail Investor Trends

Revisiting the impact of retail activity

February 2021

Corporate Advisory | **Insight**

Contents

IHS Markit®

Key Takeaways

- No-fee trading platforms for retail investors began seeing widespread adoption in Q4 of 2019, leading to speculation throughout the first half of 2020 on the impact of retail investors to the broader market and equity prices.

- Our team analyzed custodial data associated with the top retail brokers offering online trading at the time and our July 2020 report found that retail participation had a much more limited impact on overall volume than headlines were suggesting, though the group favored buying over selling.

- Given the recent headlines surrounding GameStop and day-traders on Reddit, our team revisited this analysis, quantifying the impact of retail participation from June 2020 through the end of January 2021.

- The last seven months showed a surprising level of consistency for the online/no-fee retail community in terms of average % of volume across the $17T in equities we advise. Despite the headlines (wsj.com, cnbc.com and prnewswire.com), the growth in net ownership across almost all sectors largely accounts for just 3-4% of daily trading volume. Worth highlighting, we saw the impact to volume remain pronounced for Small/Micro Cap companies over time.

- Simultaneously, the data shows increasing ownership for the group across almost all market segments on a variable price basis (buying/selling combined with price change), indicating the group were net buyers and consistent with activity during the first half of 2020. This has led the cohort to become relatively larger owners of the market while still having a limited impact to pricing in a broad respect.

- We also analyzed this retail group by ownership across sectors, market caps, and short interest bands and found a significant difference between the actual buying/selling of retail investors compared to shifts in their portfolio exposure resulting from price changes over time.

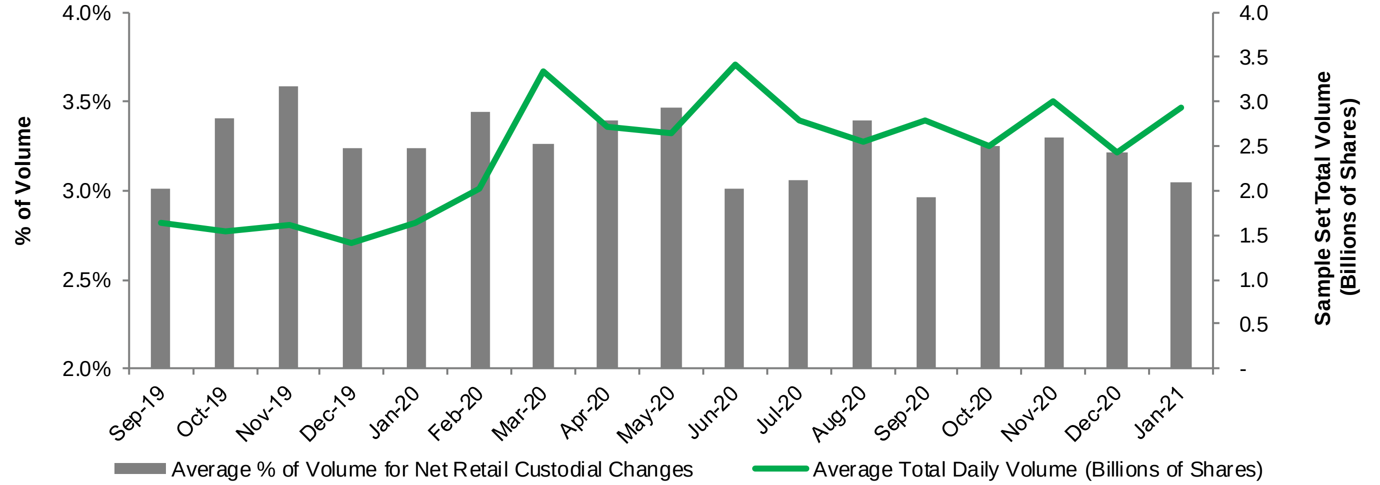
- **Methodology** - Our teams analyzed changes to custodial positions at Charles Schwab, E*Trade, Interactive Brokers, National Financial (Fidelity's retail arm), Robinhood, TD Ameritrade, and Wells Clearing custodians. These seven custodians collectively represent individually driven, pure play retail accounts compared to other retail custodians that are more representative of wealth management activity or those that share custodial banks with institutions/hedge funds.

Retail Volume Trends

Revisiting activity across retail custodians, our data shows a surprisingly consistent level of activity dating back to late 2019, largely fluctuating between 3% and 3.5% of trading volume despite a steady increase in total ownership across all segments of the market over this time frame.

This trend indicates their volume is driven much more by buying than it is by selling. Interestingly, activity over January 2021 was near the bottom of this range. Of note, these custodial movements represent net changes in ownership on a daily basis, which omits intraday trading activity but offers a view on the net impact to ownership collectively by the group. Our dataset supports the theory that retail investors, in general, remain a much smaller impact to volume and, consequently, price movement compared to both institutional investors and hedge funds. This largely has to do with the sheer size in purchasing-power with some sources estimating the average Robinhood account size to be $1,000 to $5,000.

Retail % of Volume



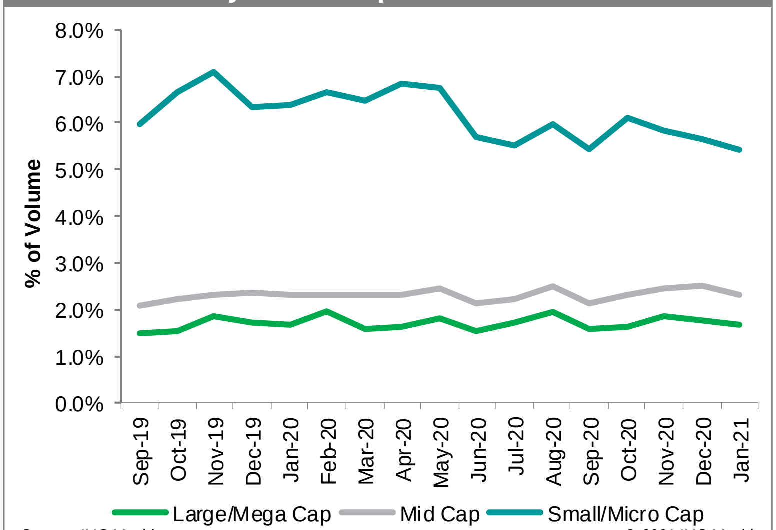
Source: IHS Markit © 2021 IHS Markit

This isn't to say the retail group cannot have an outsized impact to a specific stock such as the recent GameStop and AMC scenarios; but, simply put, large institutional investors and hedge funds are very much still the primary drivers of equity prices.

The second chart breaks out this percentage of daily volume by market cap. This breakdown also shows historical trends largely intact, as the % of volume driven by retail has a strong correlation with market cap. Small/Micro Cap stocks see roughly 3x the volume impact from retail trading compared to Mid and Large/Mega Caps, while Mid Caps maintain a slightly higher impact relative to Large/Mega Cap counterparts.

The low level of impact to Large/Mega Caps further supports that retail investors are not driving the direction of the overall market. However, the higher impact to Small Caps highlights that retail should be more of a focus for smaller companies, particularly those with low floats or liquidity.

Retail Volume by Market Cap



Source: IHS Markit © 2021 IHS Markit

Retail Ownership Trends

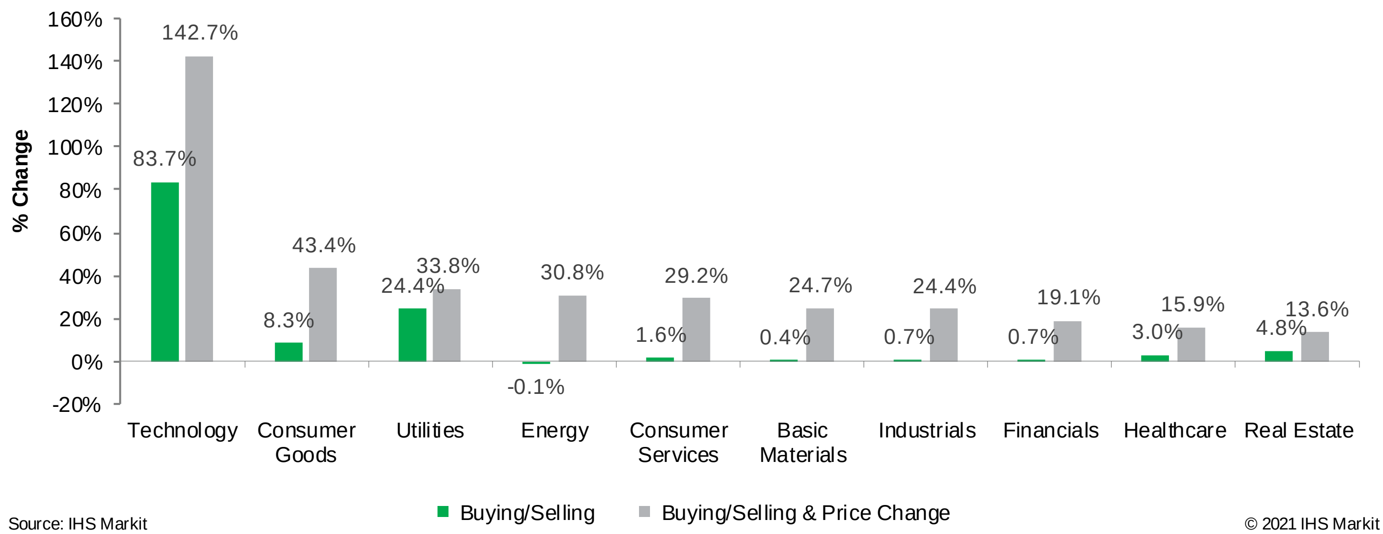
When looking to analyze retail investor ownership trends since mid-2020, we looked at changes in ownership using both static prices (pure buying/selling) and variable prices (buying/selling combined with price change). The pure buying/selling analysis gives a better view into what areas the retail community may be more bullish or bearish on. However, considering this buying/selling and price change gives a more accurate view of how portfolio allocations have shifted over time. A market segment with limited buying/selling but a significant increase in exposure suggests retail investors are still relatively more invested in that area compared to no change in market value.

Sector Rotations

From a pure buying/selling perspective, retail investors were net buyers across almost all major sectors, showing a clear preference for Tech stocks with an overall ownership increase of an astounding 83%, while Utilities (+24.4%) and Consumer Goods (+8.3%) trailed a distant second and third, respectively. In fact, our dataset shows Tech issuers, by a wide margin, were the largest beneficiary of retail participation from both a buying/selling and relative market value ownership perspective.

The move indicates the demographically young cohort's strong bias towards high margin, scalable high-growth businesses. According to CNBC, the median customer age of new accounts on Robinhood's platform is 31 years old. Specifically, our dataset suggests retail investors were overweight Electronic Tech and Internet Retail names, representing the trend towards chasing individual names that took hold last spring.

Change in Retail Ownership by Sector - 6/30/20 - 1/31/21



Source: IHS Markit

© 2021 IHS Markit

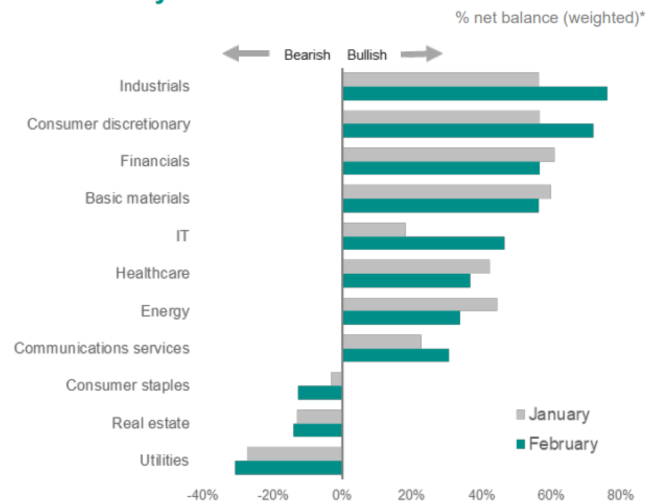
Meanwhile, Energy issuers were the only group that experienced a decline in total ownership (-0.1%), albeit a marginal move lower and one that was contrary to institutional activity. This points to yet another reversal in roles where retail investors have been selling into the rebound of Energy shares (the widely followed S&P O&G Exploration & Production ETF gained +31.9%) that were largely driven by institutional capital. The fact that our analysis revealed there were practically no net outflows across all major sectors suggests an overall bullish view towards equities as the cohort has been willing to hold onto broad-based gains thus far.

Interestingly, many of the sectors seeing actual buying from retail investors since mid-2020 are sectors that professional investors are most bearish on in the near term. IHS Markit's recently launched Investment Manager Index (IMI), which is a monthly survey of institutional investors, found the three sectors with the most bearish near-term outlook are the Consumer Staples, Real Estate, and Utilities sectors. All three were in the top four increases for retail investors behind only Technology.

Conversely, the IMI survey has seen recent positive shifts in sentiment for the Energy sector, a space where retail investors have been taking profits as opposed to adding to positions.

Investment Manager Index | February 2021

What is your outlook on the following sectors for the next 30 days?



* The net balance shows the percentage of those bullish minus those bearish. Those only reporting a 'slight' bullish or bearish outlook count as half a response, while those reporting a 'strong' bullish or bearish outlook count as one-and-a-half responses.

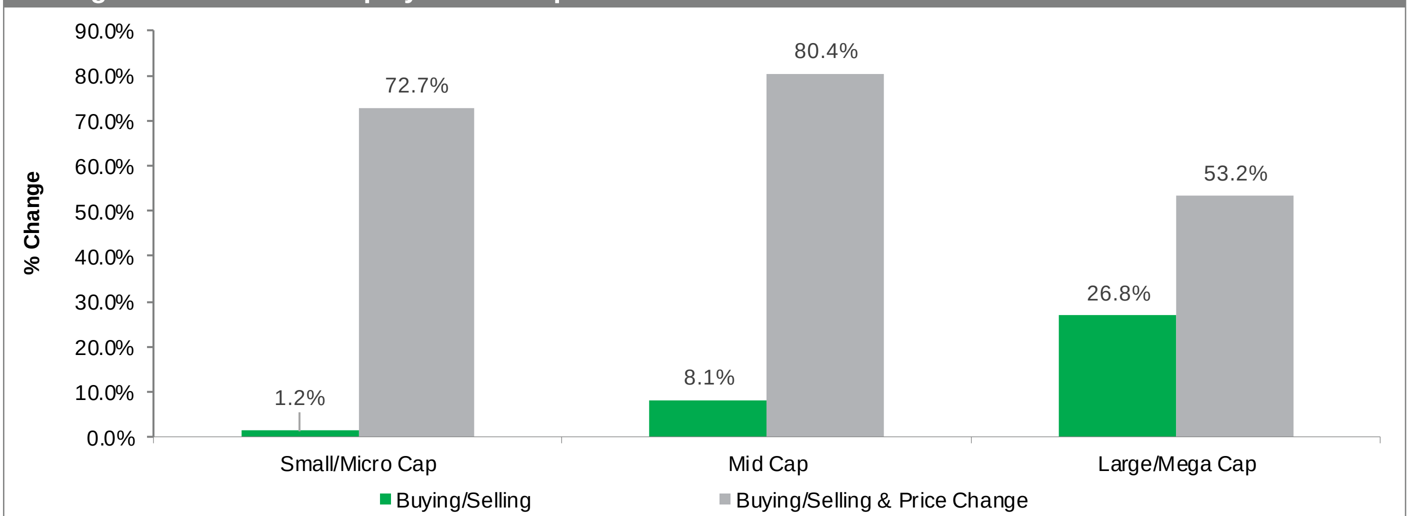
Source: IHS Markit

Market Cap Rotations

Since June 2020, retail ownership has continued to grow across all market cap ranges. Breaking out activity with and without price change tells two different stories on areas of focus and changing portfolio makeups. Interestingly, when keeping prices unchanged, the increase in retail ownership is far less pronounced, rising 1.2%, 8.1%, and 26.8% for Small, Mid, and Large Cap stocks, respectively.

This would suggest that when making active buying/selling decisions, retail investors have deployed large amounts of their capital towards larger, less volatile names. However, when taking into account price change, the total investment in Small/Micro and Mid Cap names has outpaced that of Large Caps. The fact that the increase in overall retail exposure to Small and Mid Caps comes out greater than that of Large Caps, despite the large buying in Large Caps, points to the outperformance of these market cap buckets during the broader 2H'20 stock market rally, as the Russell 2000 rose 49.2% compared to a 24.2% gain for the S&P 500. This also supports the idea that retail investors are limiting their profit-taking in these segments despite their outperformance.

Change in Retail Ownership by Market Cap - 6/30/20 - 1/31/21



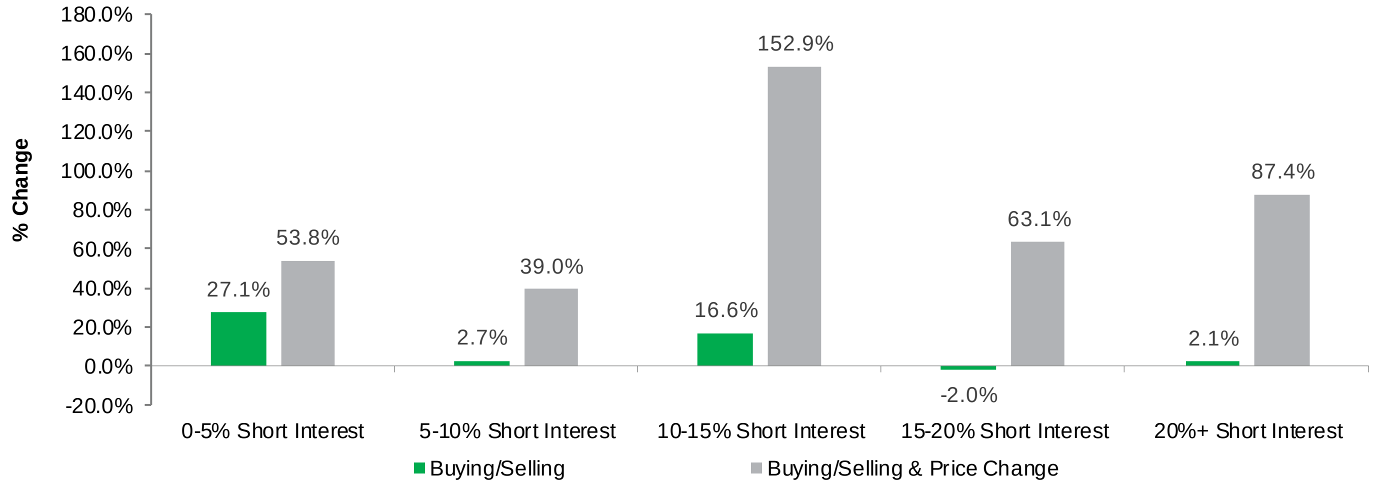
Source: IHS Markit

Short Interest Band Rotations

We conducted a similar analysis on changes in retail ownership across stocks with differing short interest as a % of float. Following the recent developments surrounding retail investors buying stocks that are highly shorted through the Reddit community known as “WSB” (for example, attempting to cause a short squeeze in GameStop), it is evident that, when taking changes in share price into account, retail exposure to stocks with high levels of short interest was significantly higher than those with low levels of short interest.

Companies with short interest as a % of float between 10% and 15% saw the largest increase in retail owners, rising by 152.9%. However, when taking a deeper look at the data and keeping share prices constant, stocks with lower levels of short interest actually saw a larger increase in retail ownership than those with high levels of short interest. A key takeaway here is that retail investors have been willing to hold onto highly shorted names as their share prices have moved higher, following the WSB Reddit message board’s call for “Diamond Hands,” a phrase that retail investors have coined in reference to holding a position for the end goal (typically a short squeeze) despite the potential risk, headwinds, and losses.

Change in Retail Ownership by Short Interest Float % - 6/30/20 - 1/31/21



Source: IHS Markit

For more information about this report, please contact:

Authors

Christopher Blake
Director, Research and Analysis
E Christopher.Blake@ihsmarkit.com

Brian Manalastas
Senior Associate, Research and Analysis
E Brian.Manalastas@ihsmarkit.com

Richard Harrisberg
Associate, Research and Analysis
E Richard.Harrisberg@ihsmarkit.com

CUSTOMER CARE
NORTH AND SOUTH AMERICA
T +1 800 447 2273
+1 303 858 6187 (Outside US/Canada)
EUROPE, MIDDLE EAST AND AFRICA
T +44 1344 328 300
ASIA PACIFIC
T +604 291 3600

T CustomerCare@ihsmarkit.com

About IHS Markit