

Consumer Insights: Money & Investing

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Investing 2020: New Accounts and the People Who Opened Them

In a year when pandemic gripped the world, beginning and experienced retail investors flocked to the stock market.

Summary

During 2020, the COVID-19 pandemic and associated market and income volatility dramatically altered the financial well-being of many U.S. households. Nevertheless, the same period witnessed a surge in retail investors who entered the markets using taxable, non-retirement investment accounts via online brokers. To learn more about these new account openers, their motivations, the types of accounts they opened, and their investment knowledge and practices, the FINRA Investor Education Foundation and NORC at the University of Chicago surveyed 1,291 households from NORC's probability-based AmeriSpeak® Panel. The survey was fielded between October 26 and November 13, 2020.¹

Respondents were grouped into one of three categories:

- ▶ **New Investors** who opened one or more non-retirement investment account(s) during 2020, and did not own a taxable investment account at any time before 2020² (38 percent);
- ▶ **Experienced Entrants** who opened a taxable investment account during 2020, and also owned an existing taxable investment account opened before 2020 (19 percent); and
- ▶ **Holdover Account Owners** who maintained a taxable investment account that was opened before 2020 but did not open a new account during 2020 (43 percent).

1. Sample characteristics can be found in the Appendices.
2. Although investors in this group were new to investing through a taxable account in 2020, they may have started investing through a tax-advantaged account, such as a 401(k) account or IRA, prior to 2020.

Results of this study indicate that New Investors were younger, had lower incomes, and were more racially diverse than Experienced Entrants and Holdover Account Owners. New Investors held smaller balances in their taxable accounts when compared with investors in the other two categories. With regard to trading frequency, the majority of all respondents in our sample reported making a few trades per month.³ For both New Investors and Experienced Entrants, investing for retirement was the most frequently cited reason for opening the account, despite the study's focus on taxable investing.

New Investors during 2020 tended to be younger, earned lower incomes, and were more racially/ethnically diverse than Experienced Entrants and Holdover Account Owners.

New Investors and Experienced Entrants funded their new investment account primarily through a combination of savings and money from their paycheck. A large number of all investors in our sample reported not knowing whether their investment account charged commissions on trades or whether their account allowed purchasing on margin. While all investors reported relying on a variety of information sources when making financial decisions, Holdover Account Owners more frequently relied upon financial professionals, while Experienced Entrants more frequently conducted their own personal research, and New Investors more frequently relied on the advice of friends and family. Investment knowledge was lowest among New Investors (both self-assessed and objectively measured).

Timeframes for holding investments varied significantly among the three investor groups in our sample, with investors exhibiting a bimodal time preference for either short (one to three years) or long (10 years or more) timeframes.

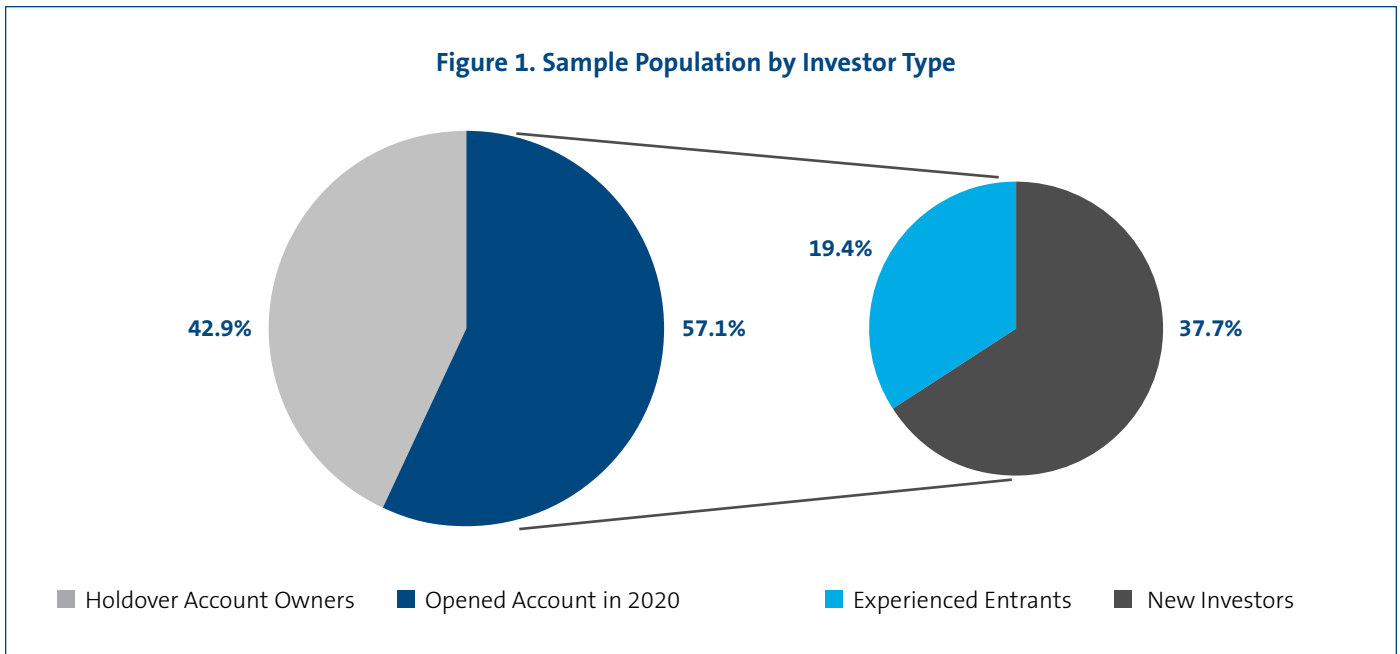
Background

Historically, investing in the stock market has been dominated by individuals with access to a retirement account through their employer, or with both the funds and knowledge to open non-employer-sponsored accounts. More recently, new investment platforms began addressing some of the traditional barriers to investing, such as not knowing how to open an account, limited access to a financial professional, the perception that large sums of money are required to enter the market, and sensitivity to the costs of investing. These platforms, coupled with the market volatility seen in early 2020, appear to be driving a record number of Americans to open new taxable investment accounts. This study seeks to better understand the types of investors entering the market, their motives and decision-making related to investing, and, importantly, how they might differ from more experienced investors.

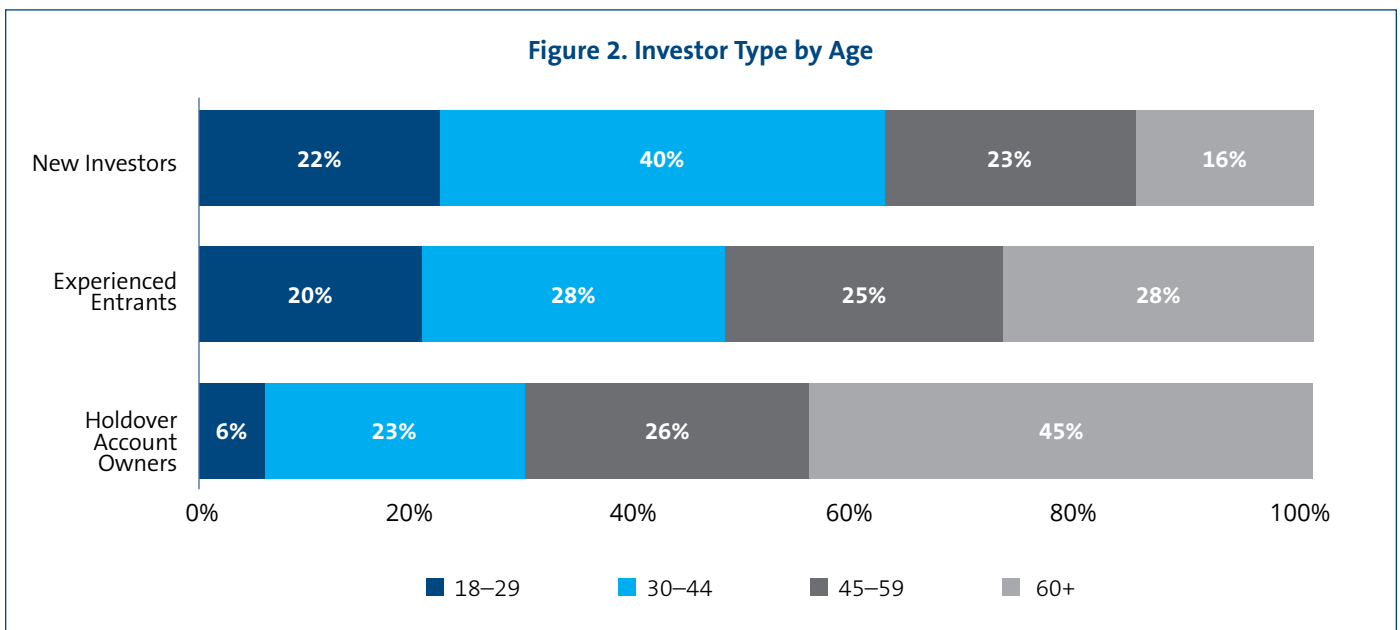
Are “New Investors” different demographically?

Fifty-seven percent of the respondents to this study opened a new taxable investment account in 2020. Among investors who opened a new account in 2020 in our sample, 66 percent were New Investors who had not previously owned a taxable investment account, making this their first experience with this type of account. Despite already holding a taxable investment account opened prior to 2020, 19 percent of the sample (whom we describe as Experienced Entrants) opened a new account in 2020.

3. Data from the 2018 FINRA Foundation National Financial Capability Study suggest that this level of trading frequency may be higher than the trading frequency of investors with taxable accounts as measured in 2018. See *Investors in the United States: A Report of the National Financial Capability Study* for more information.

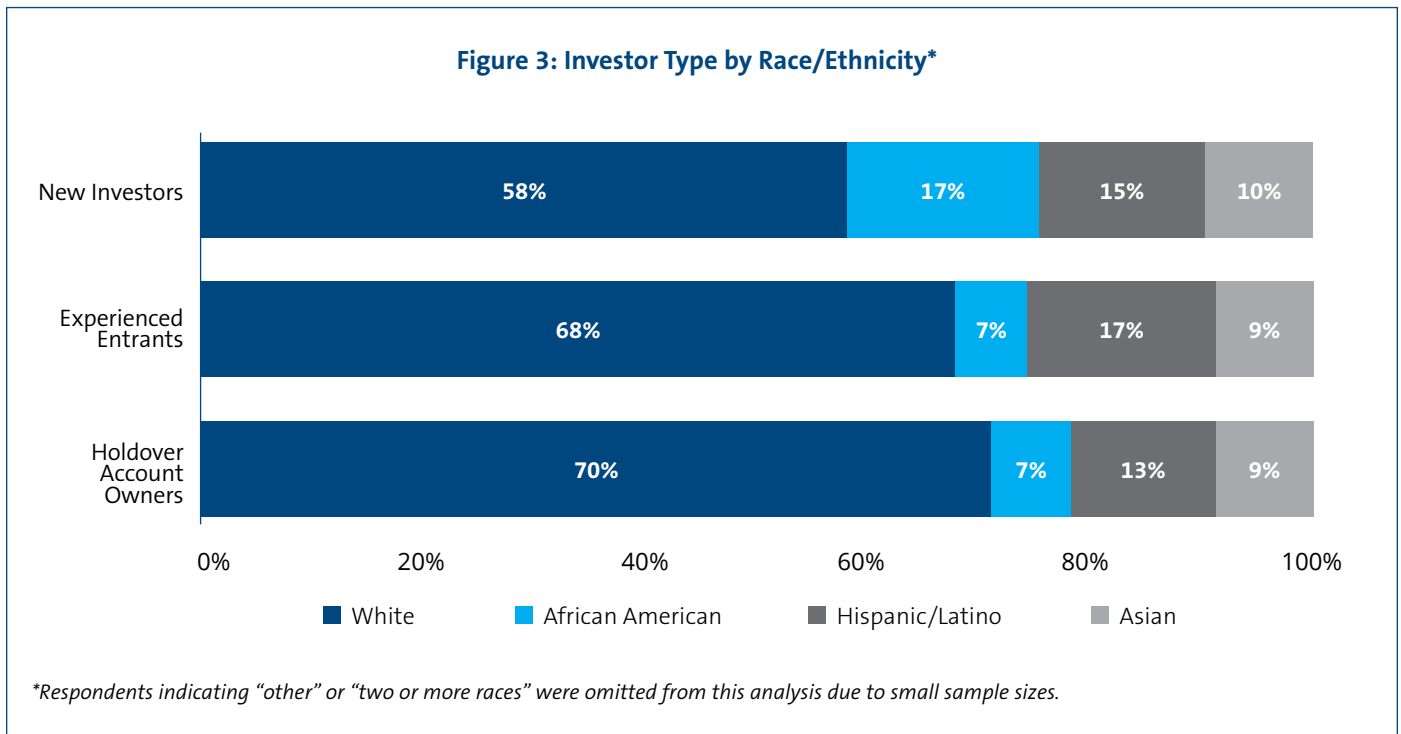


Consistent with the narrative that new investors tend to be younger than their experienced investor counterparts, almost two-thirds (66 percent) of New Investors were under 45. Investors aged 30–44 comprised the plurality of New Investors and Experienced Entrants (40 percent and 28 percent, respectively), while the plurality of Holdover Account Owners were aged 60 and over (45 percent). In fact, there were almost three times the number of investors aged 60+ among Holdover Account Owners (45 percent) compared with New Investors (16 percent).



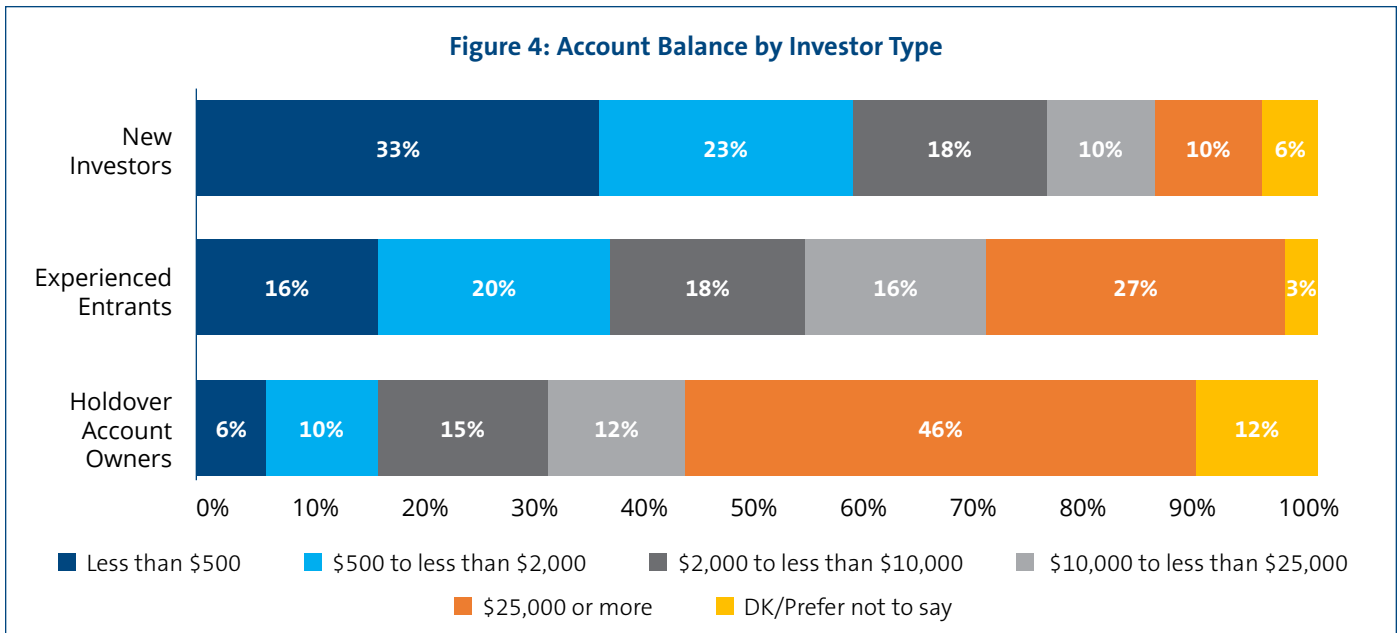
New Investors earned less income compared to both Experienced Entrants and Holdover Account Owners, consistent with the narrative that New Investors are younger and may have less money to invest due to lower incomes. The plurality of all investor groups (37 percent) earned an income of \$100,000 or more. However, 45 percent of Experienced Entrants and 41 percent of Holdover Account Owners earned \$100,000 or more, while only 28 percent of New Investors earned that amount. Additionally, 24 percent of New Investors earned less than \$35,000, while 7 percent of Experienced Entrants and 16 percent of Holdover Account Owners had similar earnings. In general, Experienced Entrants had higher incomes than both New Investors and Holdover Account Owners.

While the majority of investors in all three investment groups were white, New Investors were more diverse. Indeed, the largest proportion of African American (17 percent) investors were New Investors, and there were more Hispanic/Latino investors in both the New Investors (15 percent) and Experienced Entrants (17 percent) groups. Consistent with previous literature examining stock market participation and race/ethnicity, white respondents comprised the large majority (70 percent) of Holdover Account Owners, compared to African American respondents (7 percent) and Hispanic/Latino respondents (13 percent) (Fontes & Kelly, 2013; Gutter & Fontes, 2006; Fisch, Hasler, Lusardi, & Mottola, 2019).

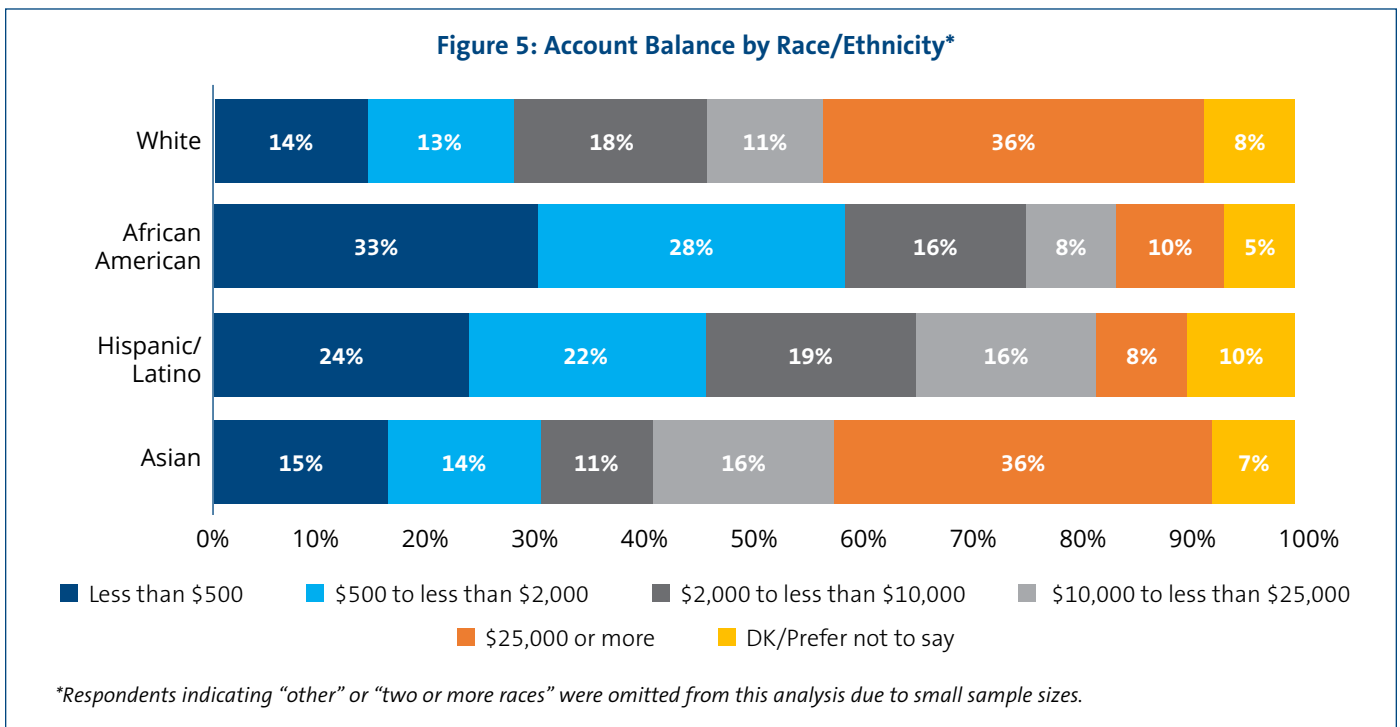


Investment account balances

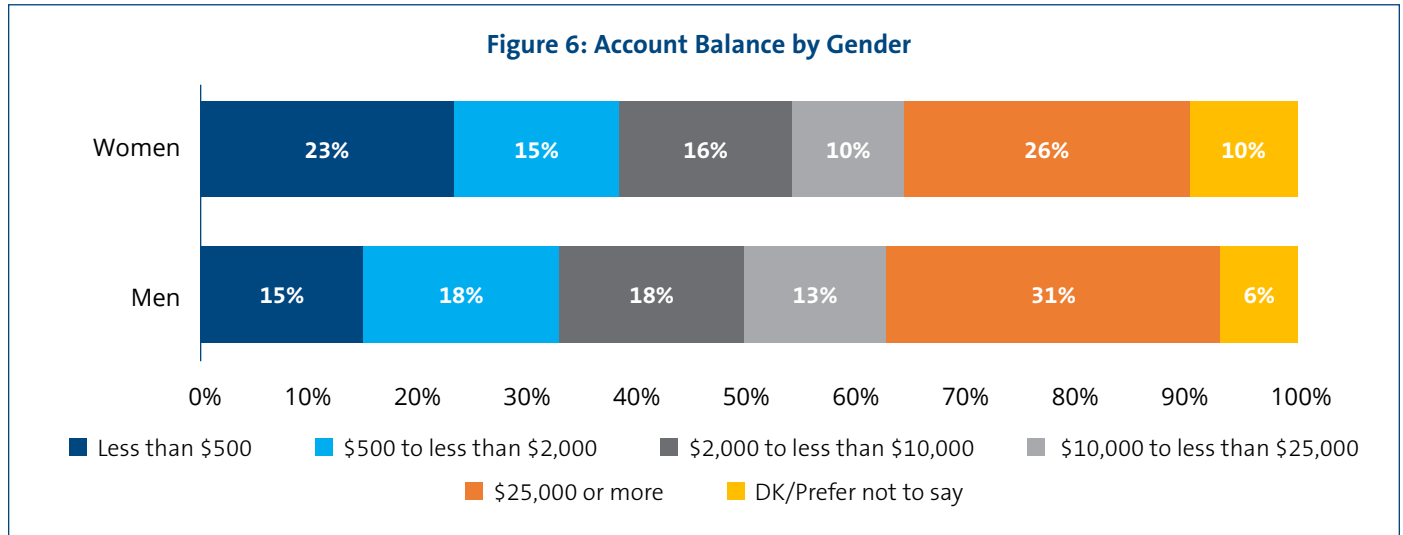
New Investors held much lower balances, in general, when compared to the other investor groups. More than twice as many New Investors held account balances less than \$500 (33 percent) when compared to Experienced Entrants (16 percent), and more than five times as many when compared to Holdover Account Owners (6 percent). Holdover Account Owners most frequently held high-value accounts (over \$25,000) (46 percent), but a large proportion of Experienced Entrants also had similar balances (27 percent).



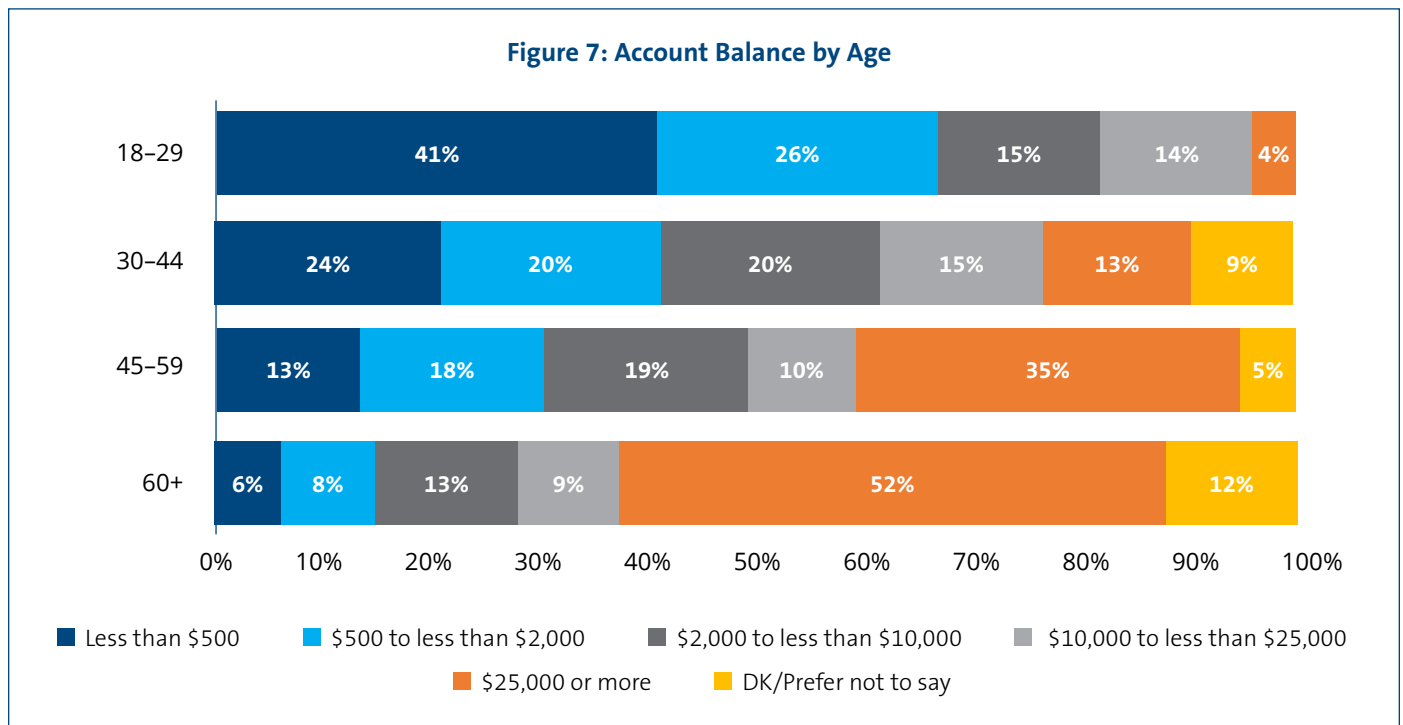
As with investor type, there were significant differences in account balances based on race and ethnicity. African American and Hispanic/Latino investors had lower balances in general compared to white or Asian investors. Specifically, African American investors reported balances under \$500 more than twice as frequently as white and Asian investors, and Hispanic/Latino investors reported balances under \$500 approximately 70 percent more frequently than white investors. Conversely, while over one-third of white and Asian investors reported balances over \$25,000, only 10 and 8 percent (respectively) of African American and Hispanic/Latino investors reported similar balances.



Account balance differences based on gender are less striking, but still significant. Women investors more frequently reported balances under \$500, and male investors more frequently reported balances of \$25,000 and over.



In general, younger investors held accounts with smaller balances, while older investors had accounts with larger balances. Indeed, while 52 percent of investors aged 60 and over held accounts with \$25,000 or more, less than one-tenth of that number (4 percent) of investors aged 18–29 held similar balances. Conversely, only 6 percent of investors aged 60 and over held less than \$500 in their account, while nearly seven times that proportion of 18–29 year-olds held under \$500 in their account.



What prompts investors to open a new account?

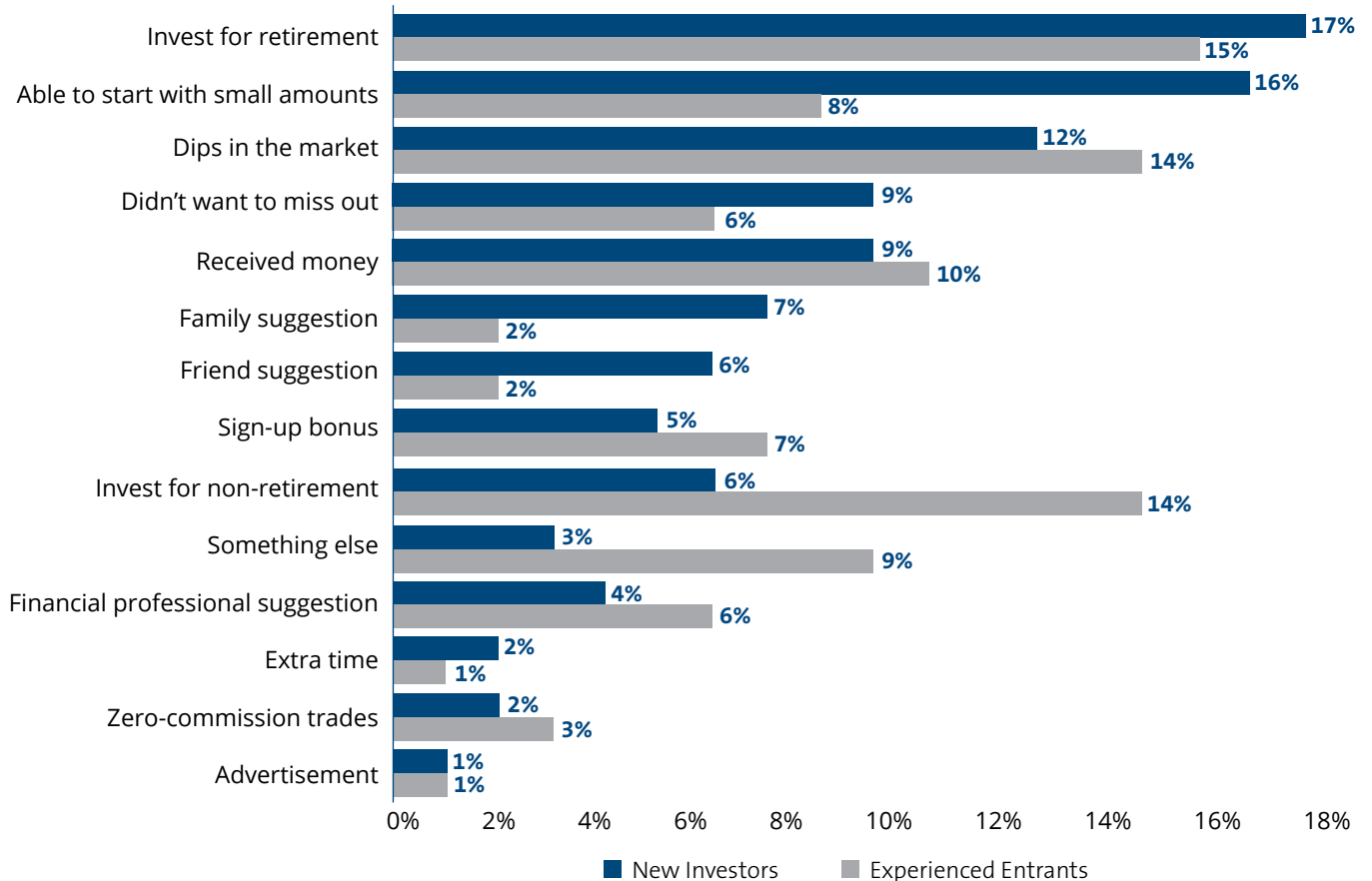
In general, results suggest that investors, and Experienced Entrants especially, enjoy investing. The majority of all investors either somewhat agreed, agreed, or strongly agreed with the statement, “I enjoy investing.” New Investors (61 percent) and Experienced Entrants (72 percent) more frequently somewhat agreed, agreed, or strongly agreed with this statement than Holdover Account Owners (54 percent). Additionally, more Holdover Account Owners (17 percent) either somewhat disagreed, disagreed, or strongly disagreed with the statement than both New Investors (9 percent) and Experienced Entrants (10 percent).

With no-minimum and low-minimum investment accounts now widely available (for non-margin investors), the barrier to entry for retail investing has fallen, allowing greater access than ever before.

The three most frequently reported reasons that prompted New Investors to open an account were the ability to invest with a small amount of money (35 percent), wanting to invest for retirement (27 percent), and dips in the market that made stocks cheaper to buy (26 percent). Experienced Entrants were similar, but differed slightly, with investing for a goal other than retirement (25 percent), wanting to invest for retirement (22 percent), and the ability to invest with a small amount of money (21 percent) making up their top three reasons for opening a new investment account during 2020.

However, when asked for the *primary* reason that prompted them to open a new investment account during 2020, a plurality of New Investors (17 percent) cited wanting to invest for retirement, followed closely by the ability to invest with a small amount of money (16 percent). A plurality of Experienced Entrants (15 percent) also cited wanting to invest for retirement.

Figure 8: Primary Reason That Prompted Opening New Account During 2020



The three most frequently reported reasons that prompted New Investors to open an account were the ability to invest with a small amount of money, wanting to invest for retirement, and dips in the market that made stocks cheaper to buy.

Striking differences emerged among race/ethnicity groups when we examined what prompted investors to open a new account during 2020. Saving for retirement prompted more than one-quarter (26 and 28 percent, respectively) of white and Hispanic/Latino investors and more than one-third (34 percent) of Asian investors to open an account. However, saving for retirement did not rank among the top five prompts for African American investors. A suggestion from a friend (26 percent) or family member (20 percent) prompted African American investors to open an account, but did not feature prominently among reasons listed by white, Hispanic/Latino, or Asian investors. “The ability to invest with a small amount of money” was the only prompt featured in the top five across all racial/ethnicity groups.

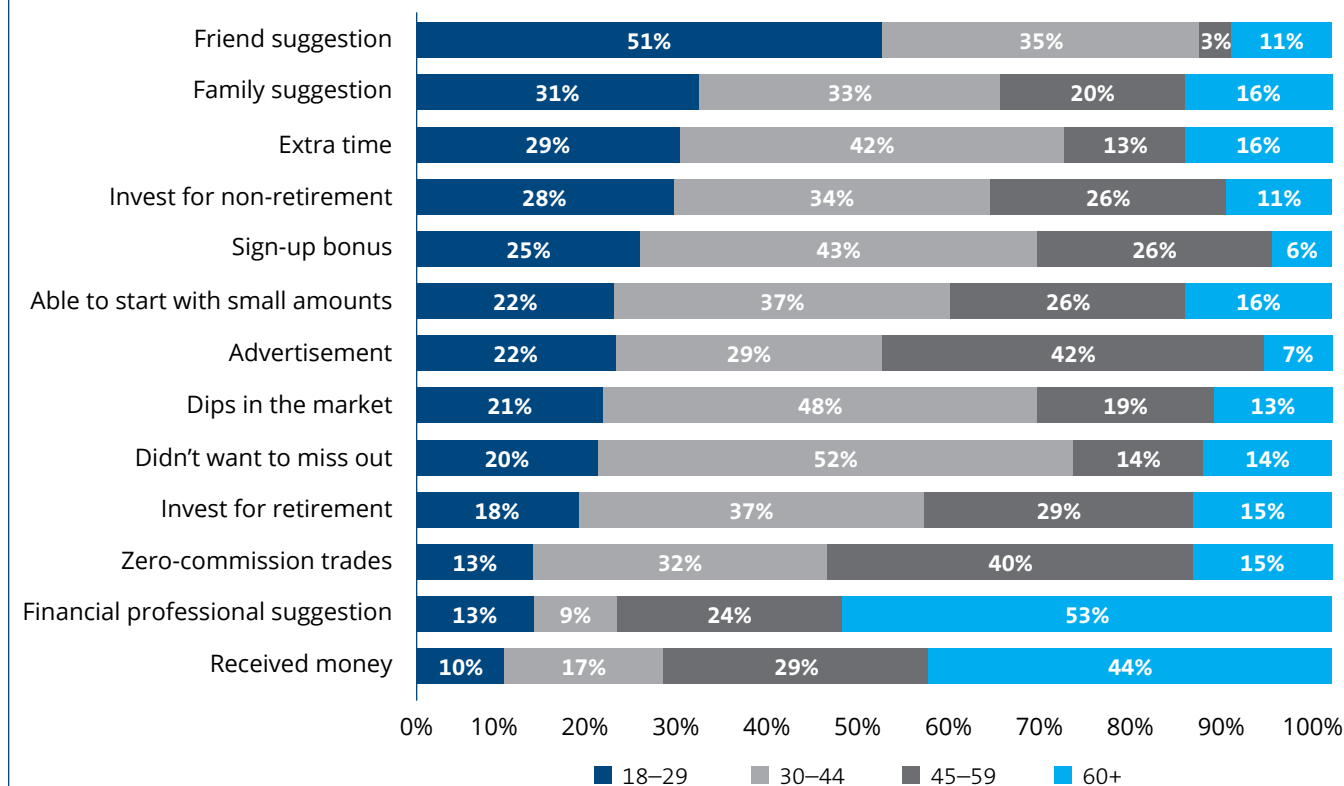
Figure 9. Most Cited Reasons for Opening a New Account During 2020, by Race/Ethnicity*

White Investors	African American Investors	Hispanic/Latino Investors	Asian Investors
Retirement (26%)	Invest with a small amount (35%)	Invest with a small amount (43%)	Retirement (34%)
Invest with a small amount (25%)	Didn't want to miss opportunity (27%)	Retirement (28%)	Market dips make investing cheaper (28%)
Market dips make investing cheaper (25%)	Friend suggestion (26%)	Goal other than retirement (20%)	Offered a sign-on bonus (24%)
Didn't want to miss opportunity (22%)	Extra time on my hands (21%)	Market dips make investing cheaper (18%)	Didn't want to miss opportunity (23%)
Goal other than retirement (19%)	Family member suggestion (20%)	Didn't want to miss opportunity (17%)	Invest with a small amount (21%)

*Respondents indicating “other” or “two or more races” were omitted from this analysis due to small sample sizes.

Similar differences emerged when examining age and prompts to open investment accounts. The majority (51 percent) of investors who were prompted to open an account based on a friend’s recommendation were 18-29, while only 13 percent of investors who were prompted to do so based on the suggestion of a financial professional were in this age group. Fifty-three percent of investors who were prompted to open an account based on the suggestion of a financial professional were over 60.

Figure 10: Age Breakdown by Reasons for Opening a New Investment Account During 2020



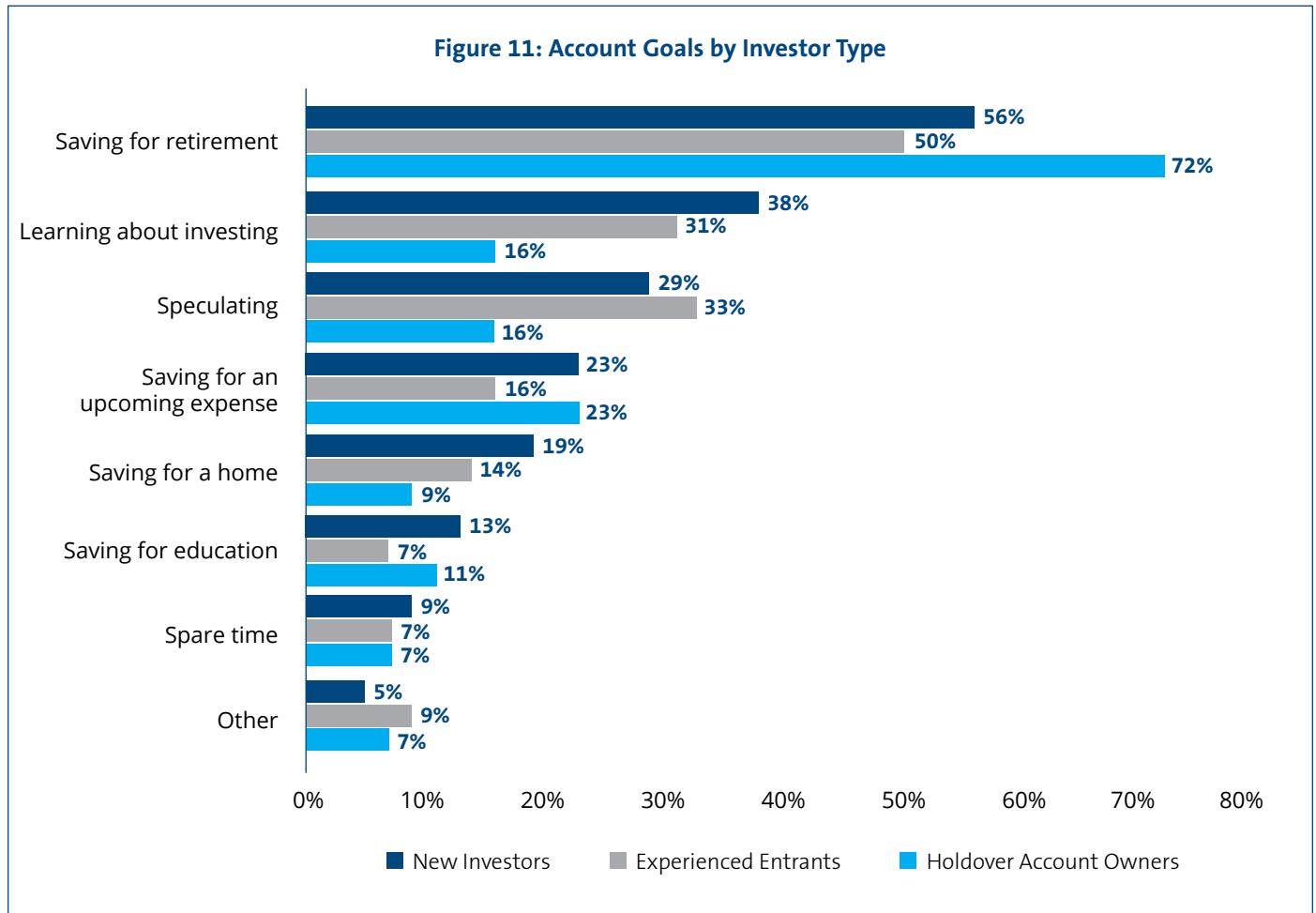
Goals⁴

In addition to asking respondents to report what prompted them to open a new account in 2020, our survey asked investors to identify up to three goals they had for their investment account. Although several investment vehicles currently exist for retirement savings, including accounts that offer tax advantages (such as 401(k) accounts and IRAs), saving for retirement was the most frequently reported goal for *taxable* investment accounts among all respondents. The majority (72 percent) of Holdover Account Owners indicated “saving for retirement” was a goal of their taxable investment account, as did New Investors (56 percent) and Experienced Entrants (50 percent). “Learning about investing” was the second most frequently reported goal of New Investors (38 percent). “Saving for an upcoming expense (for example, a wedding, vacation, or car purchase)” was the second most frequently reported goal of Holdover Account Owners (23 percent).

Anecdotes about inexperienced market speculators driving up asset prices were the subject of frequent news articles throughout 2020 (“Amateur investors are making risky bets that could wipe them out”; “Young investors pile into stocks, seeing ‘generational-buying moment’ instead of risk”). Our survey revealed that “speculating or making fast profits to build wealth” was the second most frequently reported goal of Experienced Entrants (33 percent), and the third most frequently reported goal among New Investors (29 percent) and Holdover Account Owners (16 percent).

4. For New Investors and Experienced Entrants, the goals pertained to the investment account they opened during 2020. For Holdover Account Owners, the goals pertained to an investment account opened prior to 2020 that served as their primary taxable account for investing purposes.

Among all investors, specific savings goals, such as saving for retirement, meeting an upcoming expense, buying a home, or covering educational costs, were reported more frequently than nonspecific goals, such as filling up spare time and not having any specific goal.



Financial risk-taking

In general, Experienced Entrants appeared to be willing to take more financial risk. All three investment groups most frequently reported they were willing to take average financial risks expecting to earn average returns. However, while two out of five (40 percent) of New Investors and Holdover Account Owners (42 percent) reported a willingness to take substantial or above-average financial risks (expecting to earn substantial or above-average returns), more than half (51 percent) of Experienced Entrants reported willingness to take risk at these levels. Similarly, New Investors most frequently reported that they were unwilling to take any financial risk (9 percent), compared to the other investor groups (4 percent of Experienced Entrants and 7 percent of Holdover Account Owners).

Funding sources

Respondents were offered a number of funding sources and asked to identify sources used to open their new accounts (selecting all that applied). Fifty-four percent of New Investors reported using money from their paycheck to fund their new investment account, with 48 percent using savings. Conversely, 62 percent of Experienced Entrants reported using savings, with 44 percent using money from their paycheck. Only 5 percent of New Investors and 3 percent of Experienced Entrants funded their new accounts with borrowed money.

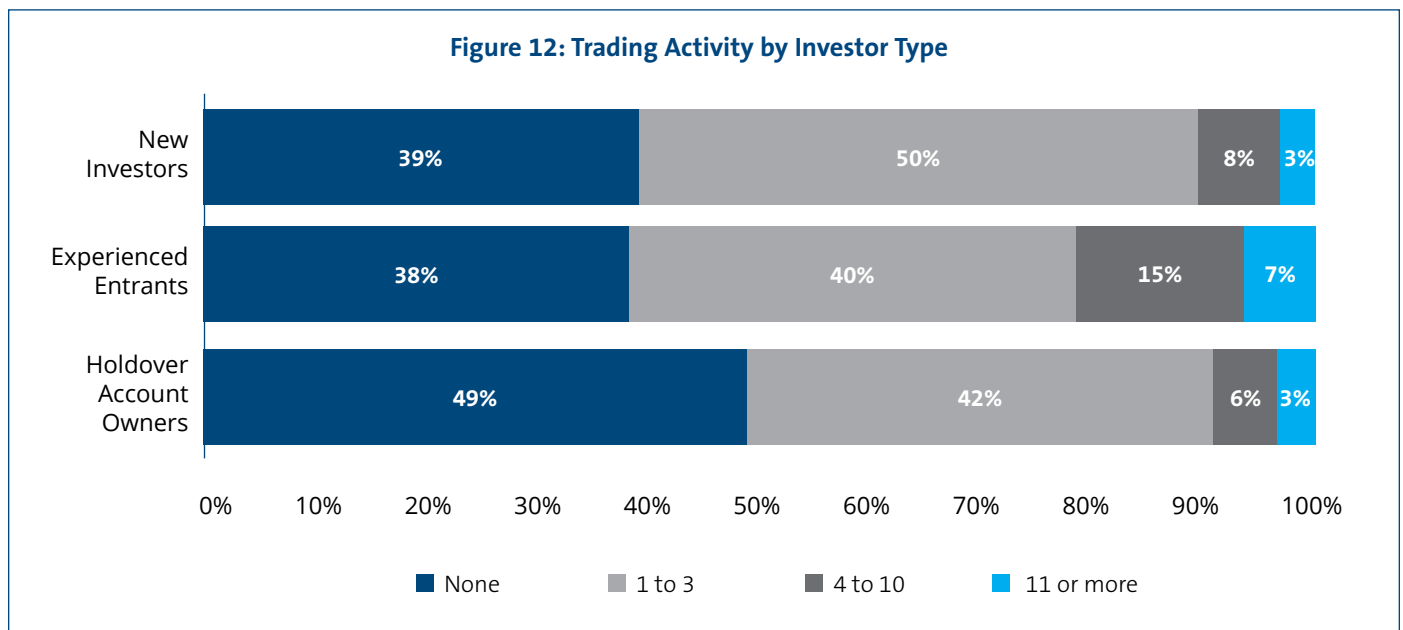
Trading behaviors

Those with accounts opened in 2020 (New Investors and Experienced Entrants) appear to trade more frequently than Holdover Account Owners. Sixty-one percent of New Investors, 62 percent of Experienced Entrants, and only 51 percent of Holdover Account Owners reported completing at least one trade per month in their investment accounts. Looking at all investors in our sample (all three categories combined), 43 percent reported “none” when asked how many trades they complete per month.

Those with accounts opened in 2020 (New Investors and Experienced Entrants) appear to trade more frequently than Holdover Account Owners.

The majority of investors who made no trades per month reported they expected their investment account to perform about the same as the stock market as a whole over the next 12 months. However, the plurality (44 percent) of investors who made 11 or more trades per month reported that they expected their new investment account to perform substantially better than the stock market as a whole over the next 12 months.

The majority of investors who accessed their accounts primarily through a mobile app (56 percent) reported making between one and three trades per month, while the plurality (45 percent) of investors who accessed their accounts primarily through a website reported making no trades per month. Among investors making 11 or more trades per month, 70 percent accessed their accounts primarily through a website and 27 percent accessed their accounts primarily through a mobile app.



Product profiles

Investments

The most frequently traded investment type for both New Investors and Experienced Entrants using their new accounts was by far individual company stocks, followed by mutual funds, exchange-traded funds (ETFs), and alternative investments (for example, cryptocurrency, gold, hedge funds). New Investors traded “other” types of investments and options the least (among a range of investment types). Experienced Entrants traded other types of investments and exchange-traded notes (ETNs) the least.

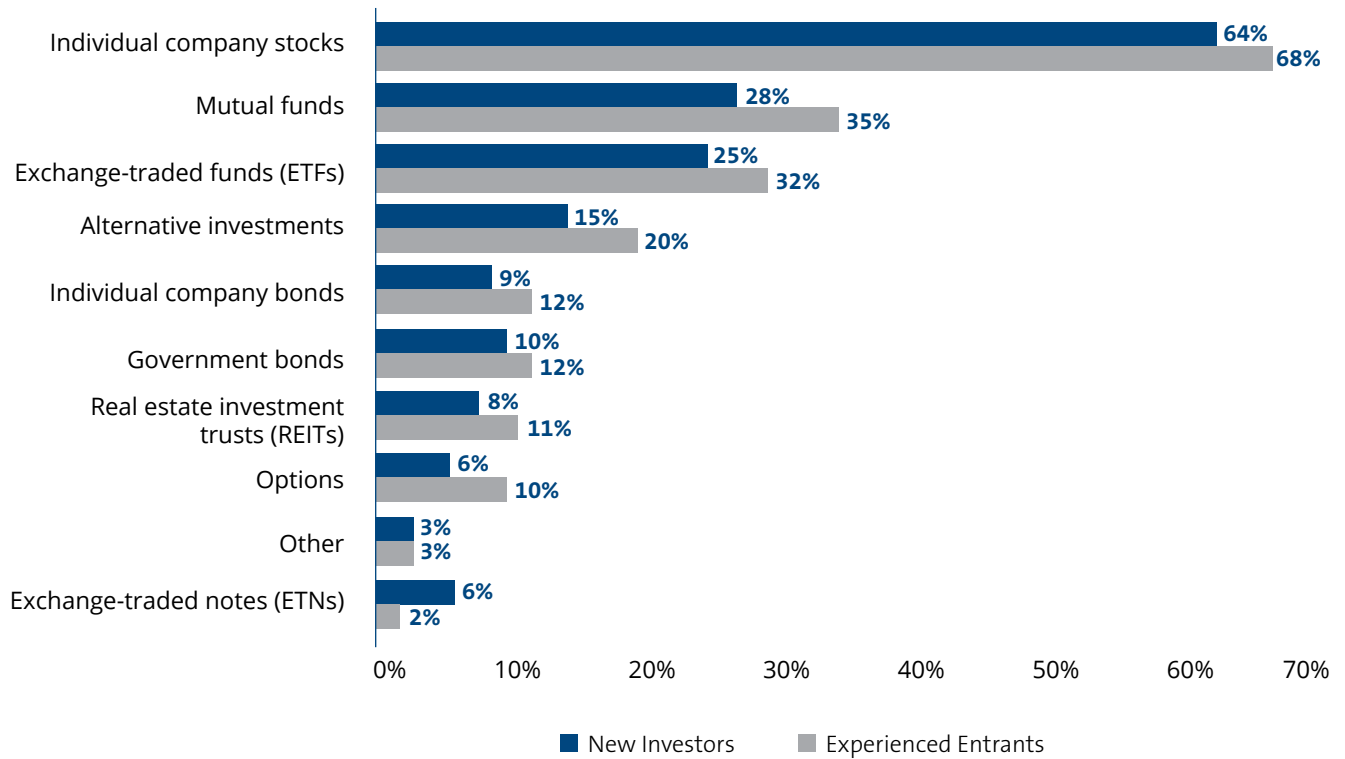
Commission-free trades

The majority of New Investors (51 percent) and Experienced Entrants (58 percent) reported that their primary investment account offered commission-free

trades. Among Holdover Account Owners, this figure was 45 percent. Interestingly, a large number of all investors reported not knowing whether their investment account charged commissions on their trades (38 percent of New Investors, 23 percent of Experienced Entrants, and 34 percent of Holdover Account Owners). The majority (60 percent) of investors accessing their accounts primarily through a mobile app and just under half (48 percent) of investors accessing their accounts primarily through a website reported owning an investment account that offered commission-free trades.

A large number of all investors reported not knowing whether their investment account charged commissions on their trades.

Figure 13: Investments Traded in New Account



Fractional shares

Fractional shares allow investors to hold an equity position in a company at less than the cost of a full share and may be appealing to some investors if the share price of a company is very high.

One-third (33 and 34 percent, respectively) of both New Investors and Experienced Entrants reported ever purchasing fractional shares with their investment account, while only 16 percent of Holdover Account Owners reported ever doing so. Similar to the finding about commission-free trades, a substantial number of all investors reported not knowing whether they had ever purchased fractional shares (19 percent of New Investors and Experienced Entrants, and 26 percent of Holdover Account Owners). Among investors who reported purchasing fractional shares, 55 percent accessed their accounts primarily through a mobile app, and 41 percent accessed their accounts primarily through a website. Additionally, among those investors who had purchased fractional shares, 62 percent owned an account that offered commission-free trades.

Margin trading

Margin allows investors to borrow money from a brokerage firm to buy stock. Buying on margin exposes investors to the potential for greater losses as well as greater gains. While only 29 percent of investors indicated they had an account that allowed them to make purchases on margin, almost half (48 percent) of investors did not know if their investment account allowed purchasing on margin. The majority (55 percent) of New Investors and a plurality of Experienced Entrants (40 percent) and Holdover Account Owners (46 percent) did not know whether their investment account allowed them to make purchases on margin. Of those who reported having a margin account, only about one-quarter (23 percent) reported actually using margin to purchase investments; this equates to 6 percent of respondents.

Options

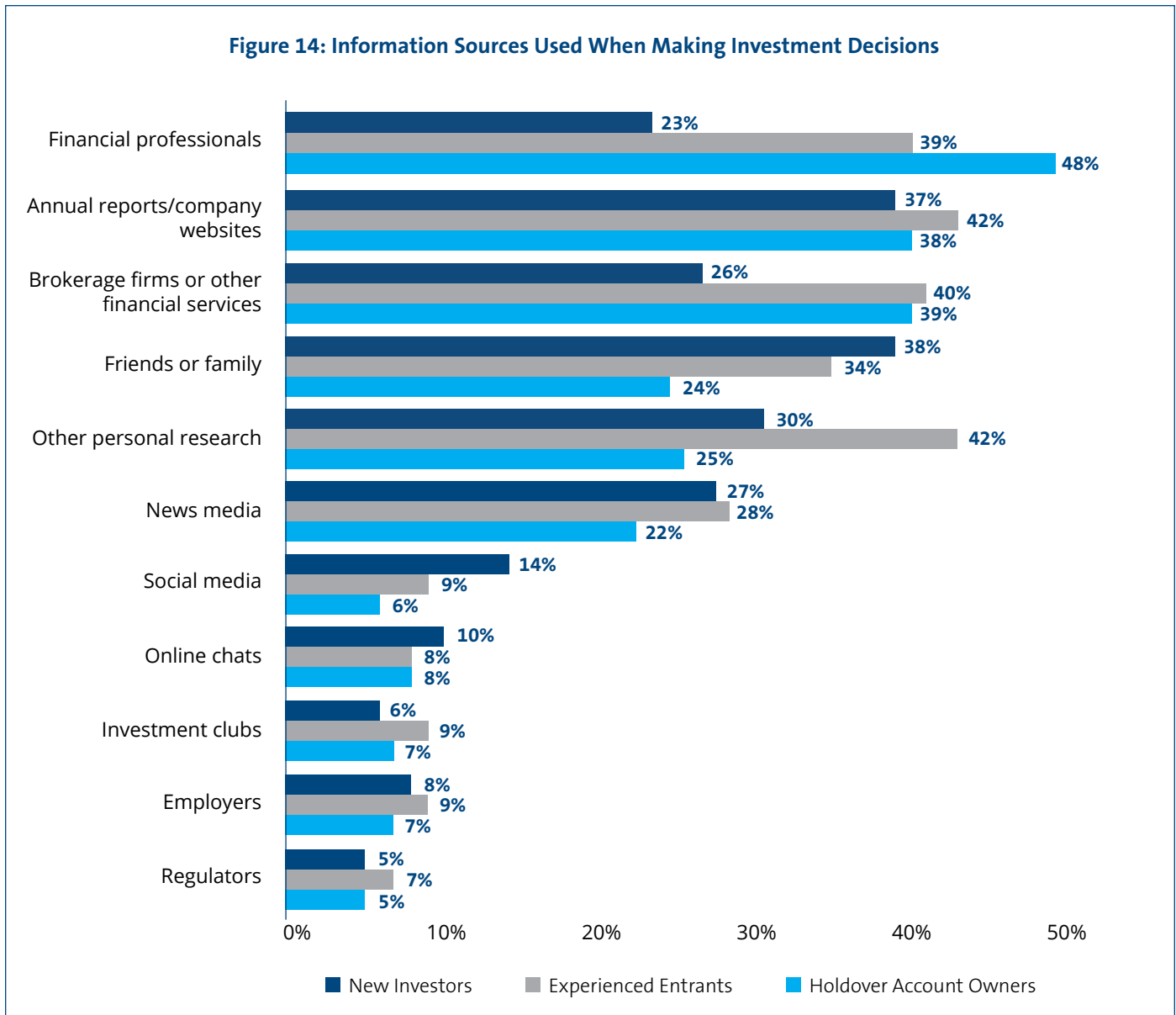
Options are tradable contracts that give a purchaser the right to buy or sell stock (or another security) at a specified price within a specified period of time. Experienced Entrants reported ever trading options (in any account) or currently trading options with their new investment account at nearly double the rate of New Investors (29 percent vs. 16 percent, respectively). Among investors who indicated they ever traded options or currently trade options with their new investment account, the majority (58 percent) reported they were willing to take either substantial financial risks expecting to earn substantial returns (9 percent) or above average financial risks expecting to earn above average returns (49 percent). Options traders also appeared to be confident in their investment performance, with nearly half (49 percent) reporting they expected their investment account to perform substantially better or better than the stock market as a whole over the next 12 months. The plurality of options traders (45 percent) indicated they made between one and three trades per month, and 25 percent reported they made no trades per month.

Decision-making and expectations

Information sources

The three investor groups displayed a marked difference when it came to the information they relied on for making investment decisions. While close to half (48 percent) of Holdover Account Owners in our sample reported relying on financial professionals when making investment decisions, only 23 percent of New Investors did so, with Experienced Entrants falling between these two groups (39 percent). New Investors tended to seek information from friends, colleagues, or family members (38 percent), as well as from the company they planned to invest in (for example, annual reports, company websites) (37 percent). Experienced Entrants reported preferring “other personal research” (42 percent) and information from the company they planned to invest in (42 percent). After financial professionals, Holdover Account Owners were nearly evenly split between relying on information from the company they planned to invest in (39 percent) and information from brokerage firms, mutual fund companies, or other financial services companies (38 percent). Regulators were the least frequently used information source among all three investor groups.

Figure 14: Information Sources Used When Making Investment Decisions



Investment decision-making

Differences emerged among our investor categories when examining how each group made investment decisions. While 14 percent of Holdover Account Owners reported always letting financial professionals choose investments for them, only 7 percent of Experienced Entrants and 8 percent of New Investors reported doing so. Conversely, 54 percent of New Investors and 51 percent of Experienced Entrants reported never letting financial professionals choose their investments for them, compared to 32 percent of Holdover Account Owners.

While almost half of all investors (48 percent) reported always or often conducting their own research and then making their investment decisions, web-based tools and mobile apps were the least frequently used method for choosing investments. Sixty-two percent of Holdover Account Owners, 60 percent of Experienced Entrants, and 50 percent of New Investors reported they never used web-based tools or mobile apps to choose their investments.

Holding period

Timeframes for holding investments varied significantly among the three investor groups in our sample. While the plurality (32 percent) of Holdover Account Owners planned to hold their investments for 10 years or more, only 23 percent of New Investors and 21 percent of Experienced Entrants planned to hold their investments for as long. The largest share of both New Investors (29 percent) and Experienced Entrants (27 percent) reported they planned to hold their investments for one to three years.

Investors appeared to exhibit a bimodal time preference, with all investor groups indicating their first and second planned holding periods were either short (one to three years) or long (10 years or more). Extremely short timeframes (less than a year) or midrange timeframes (four to nine years) were the least frequently planned holding periods. Notably, a substantial number of investors didn't know how long they planned to hold their investments (25 percent of New Investors, 16 percent of Experienced Entrants, and 19 percent of Holdover Account Owners).

Tax consequences as a factor of holding period

A majority of both Experienced Entrants (54 percent) and Holdover Account Owners (54 percent) reported that tax consequences factored into their decision about how long to hold investments before selling them. This attentiveness to tax consequences, combined with the fact that a majority of both groups identified saving for retirement as a goal for their taxable account, prompts the question of why these investors use taxable accounts rather than, or in addition to, tax-advantaged vehicles (such as 401(k) accounts and IRAs) to pursue their retirement goals. The answer is beyond the scope of the current study but may entail some combination of reaching contribution limits for retirement investing vehicles, not having access to such vehicles, wanting ready access to retirement savings without early withdrawal penalties, the relative ease of opening a taxable account, lack of knowledge about the tax implications of investing, and other factors.

Among New Investors, a plurality (41 percent) reported that tax consequences were *not* a factor when deciding how long to hold investments before selling them. Almost one in five New Investors (19 percent) did not know whether tax consequences factored into their decisions about how long to hold investments.

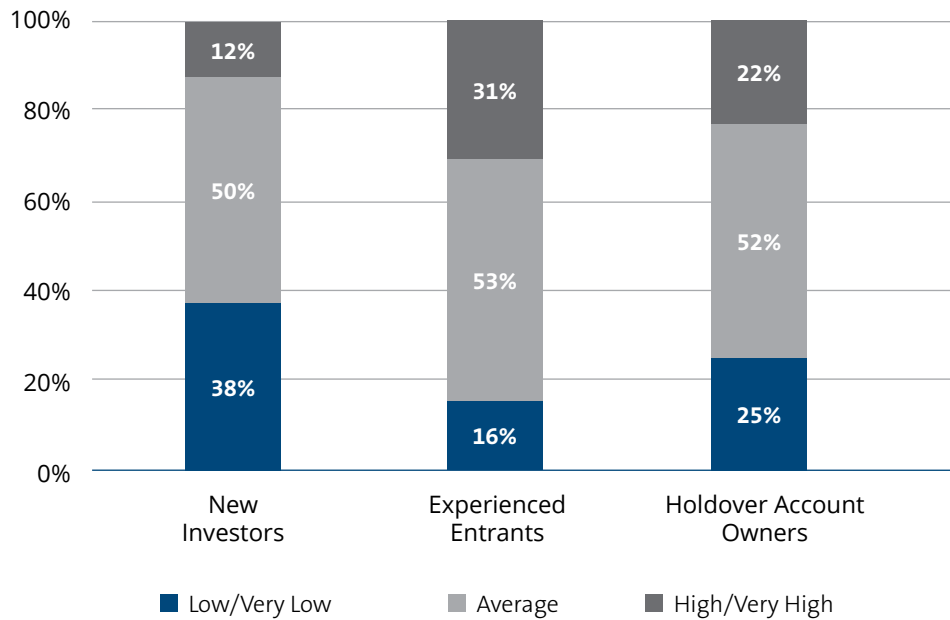
Past performance and performance expectations

The majority of New Investors (56 percent) and Experienced Entrants (63 percent) reported the market value of the holdings in their new account had either increased substantially or increased somewhat. This is unsurprising given the performance of the stock market during the timeframe addressed by the study. However, under half (47 percent) of Holdover Account Owners indicated the holdings in their account had increased either substantially or somewhat during the same period. The plurality of New Investors and Experienced Entrants, along with the majority of Holdover Account Owners, reported they expected their investment accounts to perform about the same as the stock market as a whole over the next 12 months. However, a larger proportion of both New Investors (38 percent) and Experienced Entrants (39 percent) reported they expected their accounts to perform either substantially better or better than the stock market as a whole over the next 12 months compared to Holdover Account Owners (29 percent).

Investment knowledge

This study measured investment knowledge in two ways. First, respondents were asked to self-assess their overall knowledge about investing (from very low to very high). For measurement purposes, high and very high were collapsed, as were low and very low, to create three categories: high/very high, average, and low/very low. New Investors reported considerably lower levels of self-assessed investment knowledge when compared to either Experienced Entrants (who most frequently reported high/very high levels of knowledge) or Holdover Account Owners.

Figure 15: Self-Assessed Investment Knowledge by Investor Type

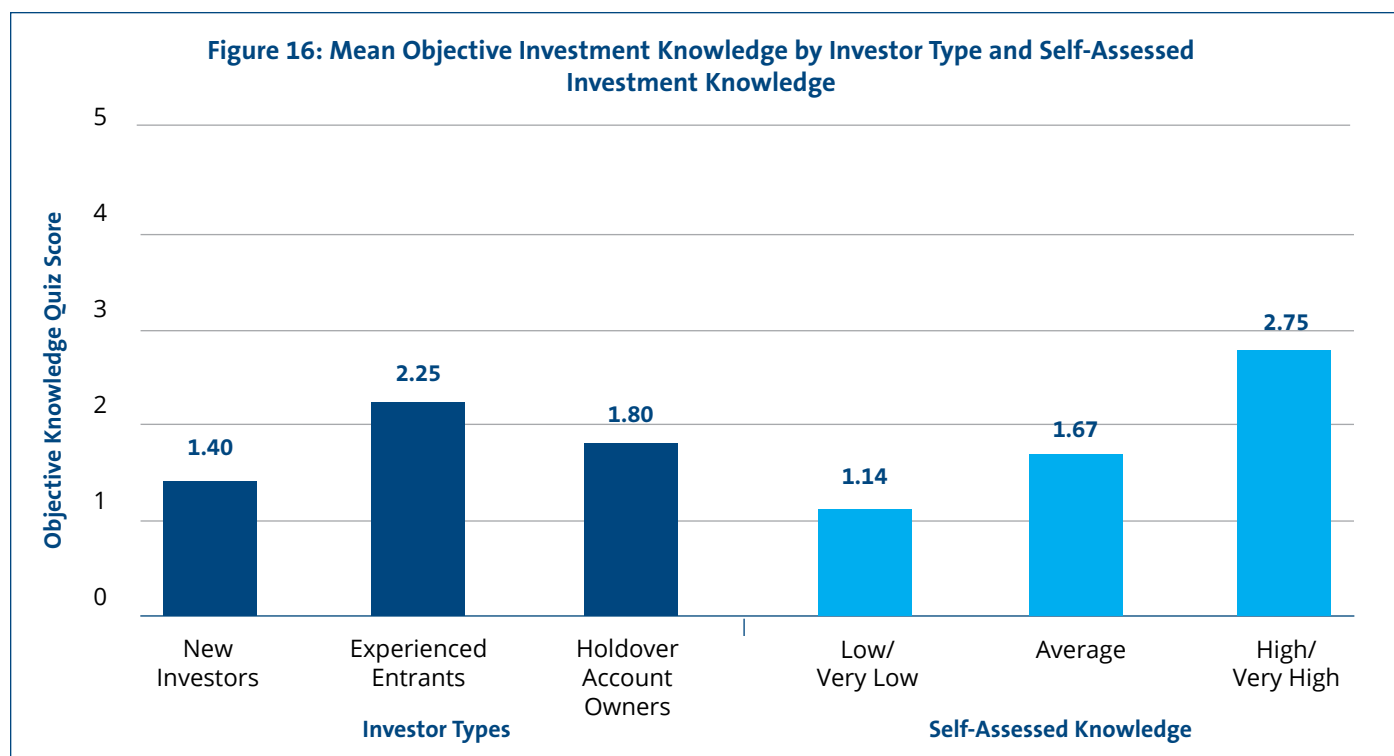


Second, the survey asked five questions related to investment knowledge. These questions ranged from basic topics (such as the definition of a company's stock and whether past performance is a good indicator of future results) to more challenging questions (such as calculating the value of a call option and a question about investments bought using margin). From these questions, a five-point index was created to measure investment knowledge, with each correct response worth one point. To examine differences in investment knowledge, we looked at the mean number of correct responses.

There was considerable variation in the objective financial knowledge of the different investor types. Experienced Entrants had the highest levels of investment knowledge, with a mean score of 2.3. Holdover Account Owners scored half a point below the Experienced Entrants (mean of 1.8), and New Investors scored almost an entire point lower (1.4). These results suggest investment knowledge, as measured by the five questions in the survey, is low for all groups, but particularly low for New Investors, making them potentially unprepared to make sound investment decisions in their new accounts.

When we looked at self-assessed and objective investment knowledge together, we saw that investors were generally good at predicting their relative knowledge (those with higher self-assessed knowledge scored comparatively higher objectively). Investors who self-assessed high/very high answered 2.8 questions out of five correctly. Investors reporting average investment knowledge had a mean score of 1.7. And those reporting low/very low knowledge answered, on average, only 1.1 of the five knowledge questions correctly.

Although it is concerning that those with high/very high self-assessed knowledge still score low when knowledge is measured objectively, New Investors, who may have only just begun to learn about investing, had both lower objective knowledge scores and low/very low self-assessed knowledge, potentially making them more likely to seek out information when making investment decisions.



Accessing and monitoring accounts

Ways of accessing accounts

Nearly half (48 percent) of New Investors indicated they accessed their account primarily through a mobile app, while three-quarters (75 percent) of Holdover Account Owners indicated they accessed their account primarily through a website. Experienced Entrants were more divided, with 40 percent who reported accessing their account primarily through a mobile app and 54 percent who gained access primarily through a website.

Frequency of monitoring accounts

At the outset of the study, we hypothesized that New Investors and Experienced Entrants, given that they recently opened accounts, would monitor their accounts more frequently than Holdover Account Owners. Results confirmed this. The plurality (21 percent) of New Investors and Experienced Entrants (22 percent) reported monitoring their investments a few times a week, while the plurality (24 percent) of Holdover Account Owners reported monitoring their investment accounts about once a month.

The majority of investors (60 percent) who reported monitoring their account multiple times a day did so using a mobile app, while the majority (69 percent) of investors who monitored their investments less than once per month accessed their account primarily through a website. The plurality (26 percent) of investors who accessed their account primarily through a mobile app checked their account a few times per week, while the plurality (23 percent) of investors who accessed their account through a website checked their account about once per month.

Account statements

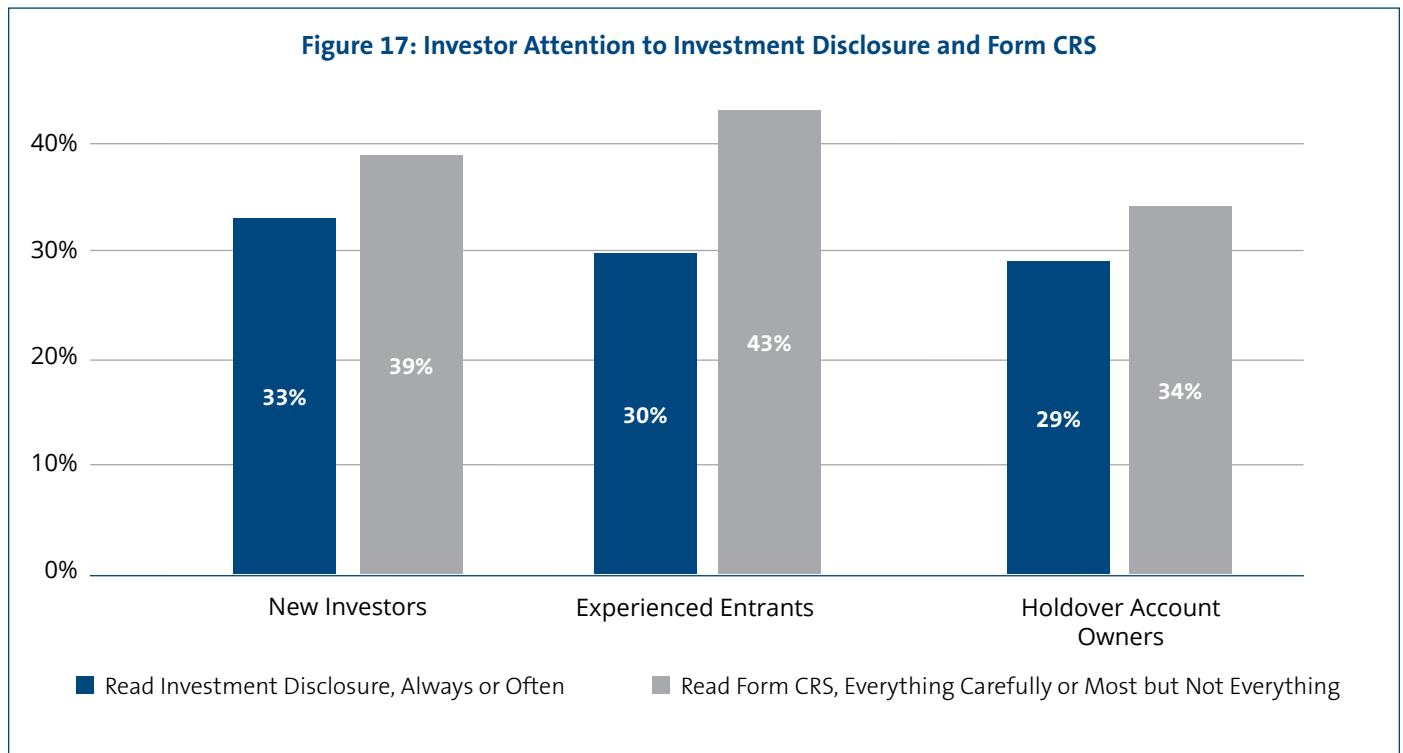
The majority (68 percent of New Investors, 69 percent of Experienced Entrants, and 54 percent of Holdover Account Owners) of all investor groups preferred to receive account statements electronically; however, a larger proportion (19 percent) of Holdover Account Owners preferred to receive statements by regular mail, compared to New Investors (11 percent) and Experienced Entrants (12 percent).

Form CRS

As of June 30, 2020, the Securities and Exchange Commission requires brokerage firms to provide retail investors with a two-page (or less) customer relationship summary, known as Form CRS, describing the firm’s services and any related fees and costs, conflicts of interest, and standards of conduct, as well as reportable legal or disciplinary history. Form CRS also tells investors how to obtain more information about the firm.

The plurality of all investors (33 percent of New Investors, 37 percent of Experienced Entrants, and 40 percent of Holdover Account Owners) reported skimming Form CRS. Further, a greater percentage of Experienced Entrants (18 percent) and New Investors (17 percent) reported reading everything carefully when compared to Holdover Account Owners (14 percent). Interestingly, 14 percent of Holdover Account Owners reported not reading any of the form, while just 8 percent of both New Investors and Experienced Entrants reported not reading any of it.

The study allows us to roughly compare the level of attention investors give to Form CRS to the level of attention they give to investment disclosures. Approximately one-third of all investor groups (33 percent of New Investors, 30 percent of Experienced Entrants, and 29 percent of Holdover Account Owners) reported they either always or often reviewed disclosure information about specific investments prior to making a purchase. By comparison, 39 percent of New Investors, 43 percent of Experienced Entrants, and 34 percent of Holdover Account Owners reported they either read everything carefully or read most (but not all) of Form CRS.



Conclusion

The COVID-19 pandemic and associated market and income volatility during 2020 were accompanied by a surge in the number of retail investors who entered the markets using taxable, non-retirement investment accounts via online brokers. This occurred at a time when the barriers to entry for retail investing have fallen, allowing greater access than ever before. To learn more about these new account openers, the FINRA Investor Education Foundation and NORC at the University of Chicago conducted a study with a nationally representative sample of U.S. households.

Consistent with narratives surrounding new market entrants, New Investors in our sample tended to be younger, earned lower incomes, and were more racially/ethnically diverse than Experienced Entrants and Holdover Account Owners. In general, New Investors owned taxable investment accounts with smaller balances compared with investors in the other two categories. While several investment vehicles currently exist for retirement savings, including accounts that offer tax advantages, saving for retirement was the most frequently reported goal for taxable investment accounts among all respondents, and the most frequently cited primary reason that prompted both New Investors and Experienced Entrants to open an account in 2020. Why investors opted to use a taxable investment account for retirement savings is beyond the scope of our study, but may include some combination of ready access to retirement savings, the relative ease of opening a taxable account, lack of knowledge about the tax implications of investing, and other factors.

The majority of investors in our study reported making a few trades per month in their account, and all three investment groups most frequently reported they were willing to take average financial risks expecting to earn average returns. Additionally, Experienced Entrants, not New Investors, more frequently reported trading options, and the majority of options traders indicated they made between one and three trades of any kind (options or other types of investments) per month.

While all investors reported relying on a variety of information sources when making financial decisions, Holdover Account Owners more frequently relied upon financial professionals, while Experienced Entrants more frequently conducted their own personal research, and New Investors more frequently relied on the advice of friends and family.

A large number of all investors in our sample reported not knowing whether their investment account charged commissions on trades or whether their account allowed purchasing on margin. Investment knowledge was lowest among New Investors (both self-assessed and objectively measured). Given differences in awareness of account features and investment knowledge, coupled with the various information sources investors reported relying upon for decision-making, it may be the case that different investor groups have quite distinct needs when it comes to disclosure, information sources, and investing in general. Additionally, because New Investors and Experienced Entrants differ markedly along racial/ethnic and age groups, these needs may be further impacted by cultural differences and familiarity with investing, as well as disparities in investor education.

Appendices

About the data

This study uses data collected between October 26 and November 13, 2020, using the AmeriSpeak® Panel. Funded and operated by NORC at the University of Chicago, AmeriSpeak is a probability-based panel designed to be representative of the U.S. household population. Randomly selected U.S. households are sampled using area probability and address-based sampling, with a known, non-zero probability of selection from the NORC National Sample Frame. These sampled households are then contacted by U.S. mail, telephone, and field interviewers (face to face). The panel provides sample coverage of approximately 97 percent of the U.S. household population. Those excluded from the sample include people with P.O. Box only addresses, some addresses not listed in the USPS Delivery Sequence File, and some newly constructed dwellings. While most AmeriSpeak households participate in surveys by web, non-internet households can participate in AmeriSpeak surveys by telephone. Households without conventional internet access but having web access via smartphones are allowed to participate in AmeriSpeak surveys by web. AmeriSpeak panelists participate in NORC studies or studies conducted by NORC on behalf of governmental agencies, academic researchers, and media and commercial organizations.

1,291 U.S. adults ages 18 and older participated in the study. The study was fielded in English only, and was administered online. Respondents were considered eligible for the study if they were either the primary decision-maker or shared in the decision-making related to finances in the household, and completed a set of screening questions that classified them as New Investors, Experienced Entrants, or Holdover Account Owners. The screener completion rate was 30.7 percent. 14.3 percent of screened respondents were eligible for the study, and 98.9 percent of eligible respondents completed the survey. The final AAPOR response rate (RR3) for the study was 5.2 percent, and the margin of error was 3.84 percentage points. AmeriSpeak participants self-identified their age, sex, education, and race/Hispanic ethnicity. Because some of the statistics for the Asian Investor group are based on small samples, results pertaining to Asian investors should be interpreted with caution. Similarly, given that few respondents reported making 11 or more trades per month, statistics involving this subset of the sample should be also be interpreted with caution.

Imputation

Fifty-seven observations were unable to be classified as either New Investors or Experienced Entrants due to missing data. To classify these observations, a multiple imputation technique utilizing a random forest model was used to estimate the investor status for these 57 observations. Specifically, the investor group for each respondent was estimated five times using the following independent indicators:

- ▶ Investment knowledge score (range 0–5)
- ▶ Age (60+/18–59)
- ▶ Race (African American/other)
- ▶ Primary reason for opening (non-retirement/other)
- ▶ Primary reason for opening (start with small amounts/other)
- ▶ Have experience in options trading (yes/no)

Final investor group classifications for respondents were obtained by calculating the mode of investor group classifications from the five-model imputation.

Weighting

Statistical weights for the study-eligible respondents were calculated using panel-base sampling weights to start. The base sampling weights are further adjusted to account for unknown eligibility and nonresponse among eligible housing units. The household-level nonresponse adjusted weights are then post-stratified to external counts for number of households obtained from the Current Population Survey. Then, these household-level post-stratified weights are assigned to each eligible adult in every recruited household. Furthermore, a person-level nonresponse adjustment accounts for nonresponding adults within a recruited household. Finally, panel weights are raked to external population totals associated with age, sex, education, race/Hispanic ethnicity, housing tenure, telephone status, and Census Division. The external population totals are obtained from the Current Population Survey. Study-specific base sampling weights are derived using a combination of the final panel weight and the probability of selection associated with the sampled panel member. The screener nonresponse adjusted weights for the study are adjusted via a raking ratio method to general population age 18 and older population totals associated with the following socio-demographic characteristics: age, sex, education, race/Hispanic ethnicity, and Census Division.

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The Financial Industry Regulatory Authority (FINRA) is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry—brokerage firms doing business with the public in the United States. FINRA, overseen by the Securities and Exchange Commission, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit www.finra.org.

The FINRA Investor Education Foundation supports innovative research and educational projects that give underserved Americans the knowledge, skills, and tools to make sound financial decisions throughout life. For more information about FINRA Foundation initiatives, visit www.finrafoundation.org.

About NORC at the University of Chicago

NORC at the University of Chicago is an independent research institution that delivers reliable data and rigorous analysis to guide critical programmatic, business, and policy decisions. Since 1941, NORC has conducted groundbreaking studies, created and applied innovative methods and tools, and advanced principles of scientific integrity and collaboration. Today, government, corporate, and nonprofit clients around the world partner with NORC to transform increasingly complex information into useful knowledge.

Notes

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