Corner Office Views

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Research | Analytics | Consulting

Corner Office Views

Timely Insights to Inform your Business Strategy

Lead with knowledge and perspective. Connect with secular trends impacting financial services, interpret what they mean for your business, and drive new opportunities. Cerulli's Corner Office Views provides market-leading insights and tangible takeaways for senior executives seeking to strengthen and scale their business models.

About the Authors

John McKenna
Analyst, Retail Investor

John specializes in investor trends and behaviors across different provider and advisory relationships. He contributes to *The Cerulli Edge—Retail Investor* series and two annual reports, as well as providing quantitative and qualitative analyses for multiple practices and consulting engagements.

Prior to joining Cerulli Associates, John was an assistant at Harvard Kennedy School of Government, researching philanthropic habits among ultra-high-net-worth Chinese and American benefactors.

Education

- Bentley University
  Master of Business Administration
- Fordham University
  Bachelor of Arts in Economics with minor in Political Science

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Scott Smith
Director of Advice Relationships

With more than 20 years of financial services industry experience, Scott leads Cerulli's research efforts focused on investor behavior and advisory relationships. In his time at Cerulli he has authored more than two-dozen in-depth reports on topics ranging from wholesale distribution to digital advice platforms. His research helps Cerulli's clients understand how to optimize their platforms given the evolving demand for financial advice.

Scott started his career wearing a headset at Putnam Investments' service center in 1996, before moving to more strategic roles at MFS Investment Management starting in 2000, and then to Cerulli in 2007.

In addition, he currently serves as member of the CFP Board's Digital Advice Working Group, and as a judge for the wealthmanagement.com Industry Awards.

Education

- The Johns Hopkins University
  Bachelor of Arts in Economics
- Bryant University
  Master of Business Administration

How to Keep Investors on Target During Social-Media-Fueled Rallies?

The “meme stock” craze has some lessons for advisors

Key Points

- Robinhood executed more than 25% of retail options trades in January 2021 during the height of the “meme stock” craze.
- Today, advisors must keep tabs on how their clients consume and act on financial information.
- As more self-directed investors enter financial markets, the demand for formal financial advice and willingness to pay for it has also increased.

Lessons from the “meme stock” craze

The “meme stock” craze of 1Q 2021 has some lessons for advisors. While these niche stocks accounted for less than 0.1% of market activity at the time, it highlights the need for advisors to keep tabs on how their clients consume and act on financial information, particularly on forums like Reddit. As quickly as the “meme stocks” spiked, they fell just as fast, and have been volatile ever since, which can lead to large losses for investors who bought at inopportune moments.

While this should not necessarily lead advisors to dissuade their clients from making high-risk investments, it does become important for advisors to frame these market swings in the context of financial history and client long-term goals to combat herding biases or the “hot hand fallacy.” Keeping abreast of the influences and influencers shaping discussions in public forums can help advisors frame these conversations on the clients’ terms while ensuring that the best laid financial plans are not squandered by temporary crazes.

Expanding the advice market

Despite expectations that increased access to a variety of investing tools and technology would swell the ranks of the self-directed investor segment, investors have instead consistently shown increased interest in expanding their advice relationships. In 2020, Cerulli found that self-directed investors reported more of an interest in formal financial assistance and an increased willingness to pay for that advice. And, surprisingly, investors express relatively consistent belief in the virtue of financial services providers across wealth tiers with only a five-percentage-point dispersion between those at 51% in the $100,000–$250,000 wealth tier to 56% for those with more than $2 million in investable assets.

Self-Directed Investor Sentiment by Year, 2016–2020

Self-Directed Investors	2016	2017	2018	2019	2020
I am willing to pay for advice	29%	28%	26%	25%	31%
I need more advice than in the past	28%	30%	28%	28%	34%

Sources: Phoenix Marketing International, Cerulli Associates | Analyst Note: Self-directed respondents were asked whether they agreed or strongly agreed with each of the advice relationship sentiments below.

Social media and high-risk investing

In January 2021, a crowd of investors on the Reddit forum WallStreetBets (r/WSB), a site famous for promoting high-risk investment ideas, banded together on a plan to drive up the share price of fading retail giant GameStop, which hedge funds had aggressively shorted. The push to increase the share price to squeeze the short positions created a unique frenzy of trading activity in January.

Financially, the short-squeeze, a trading strategy in which the share price of a company is pushed up so high that investors who have short sold the position are forced to buy the shares themselves to curtail losses (resulting in an even higher share price), proved to be incredibly successful at the outset. r/WSB fans (who tend to favor Robinhood due to its commission-free investing even with options) drove the price of the stock up from $20/share to as high as $347/share in just 15 days—causing huge investment losses on a number of short positions and forcing Melvin Capital, one of the major short sellers, to seek a cash infusion from its investors to stay afloat.

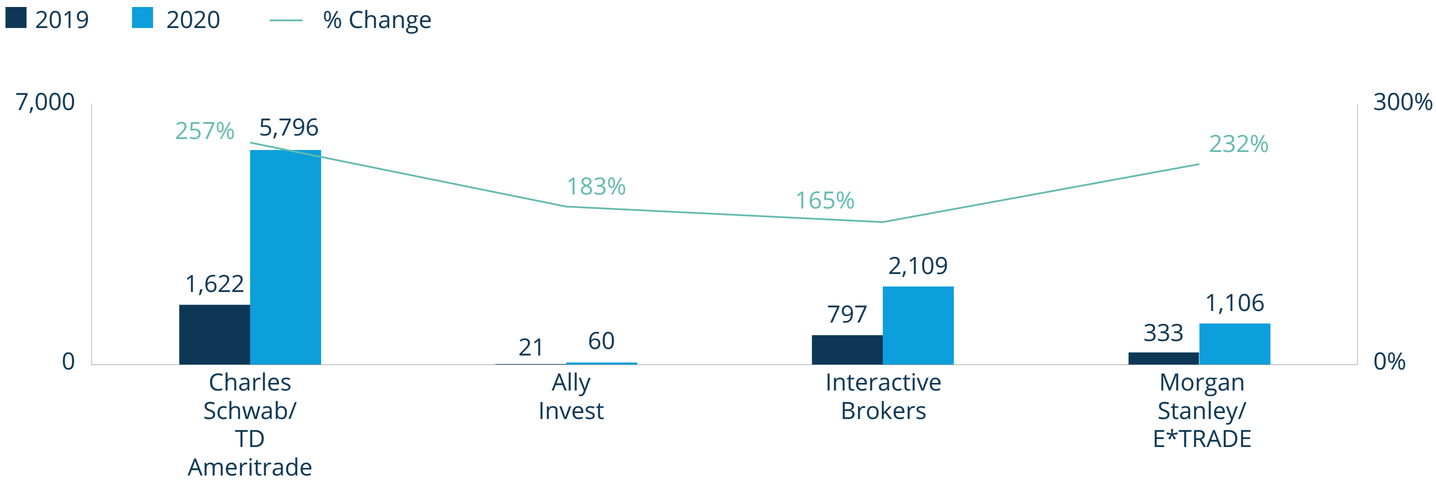
Yet this rush of short-sellers caused problems for Robinhood, as well as other retail direct providers who had to fill these trades. Due to the two-day time lag in finalizing the trades with market makers and clearinghouses, and the capital risks of attempting to execute so many orders in a volatile security simultaneously, Robinhood and some of its peers instituted temporary no-buy limits on GameStop and other "meme stocks" that were part of the short-sell push, such as AMC and Bed, Bath & Beyond. While such a move occurs periodically at brokerages during instances of high volatility, it fueled criticism that Robinhood had sold out to the market makers and hedge funds with which it contracts to execute orders.

> Robinhood's customer base has, according to studies, an average age of 31 and typical account balances ranging from $1,000–$5,000 per customer.

Robinhood Chief Executive Officer Vlad Tenev answered the critiques several days later, explaining the process of clearing trades, why it takes two days to do so, and the capital requirements that necessitated a temporary halt on certain equity trades. Tenev committed to spearheading reforms that would, as he hopes, lead to real-time trade clearances, with buy order suspensions becoming a thing of the past. Nevertheless, the negative attention Robinhood received drew more criticisms of its practices from both regulators and financial professionals.

The company has since made key changes to its platform, such as celebrating financial behaviors that meet long-term objectives, as well as enhancements to its Robinhood Education platform and phone numbers for customers to speak with financial representatives if they have questions. These can prove to be helpful for Robinhood's customer base, which, according to studies, has an average age of 31 and typical account balances ranging from $1,000–$5,000 per customer.

Daily Active Revenue Trades (DARTs) by Year, 2019–2020



Sources: Public Filings, Cerulli Associates | Analyst Note: DARTs figures represent average daily revenue trades from the end of 2019 and 2020. Due to mergers of TD Ameritrade and E*TRADE with Charles Schwab and Morgan Stanley, respectively, 2019 and 2020 figures represent the combined totals for each partnership.

Moreover, according to a January academic study entitled, "Zero-Commission Individual Investors, High Frequency Traders, and Stock Market Quality" from researchers at Oklahoma State and Emory Universities, users looked up the top-three most frequently asked questions on the site at four times the rate of other major brokerages, with such questions being, "What is the stock market?" or "What is the S&P 500?" rather than the typically more advanced trading questions on other brokerage sites, indicating that these customers tend to be financial novices.

Traders want professional help

Despite Robinhood's stumbles during the past year, the ease at which investors can trade on their site as well as its status as a pioneer of free stock trading (even though high order flow costs do not necessarily make it free) has earned it a following among young investors looking to get their start in the world of investing. Yet the multitude of ways to engage in financial markets, from stocks and exchange-traded funds ETFs to options and short-squeezes, plus the gyrations of the markets in the past year, have led these investors to consider asking for formal help at an increased rate. In 2020, Cerulli found that self-directed investors reported more of an interest in formal financial assistance and an increased willingness to pay for that advice.

Among brokerages that also have formal advice channels, the push for no-fee accounts is seen as a way of gaining customers that can eventually be turned into formal advice relationships. Charles Schwab had 142,000 new account openings in October 2019 alone, while financial advisory firm Captrust reported 12,000 financial webinar attendees in 2020—triple the attendance from 2019. Both trends suggest that as investors get more involved, more questions will be asked about their investments, opening up more advice opportunities in a traditionally independent-minded demographic.

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Cerulli for Research and Consulting

For nearly 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

Contact us to learn more:

info@cerulli.com | www.cerulli.com

CERULLI ASSOCIATES

Research | Analytics | Consulting

info@cerulli.com | www.cerulli.com

United States

699 Boylston Street
Boston, MA 02116
United States
+1 617-841-1011

Europe

Valiant House,
4-10 Heneage Lane
London EC3A 5DQ
United Kingdom
+44 (0)20 7645 9040

Asia

10 Anson Road, #24-15
Singapore 079903
+65 6327 4045