Understanding self-directed investors

A summary report of research conducted for The Financial Conduct Authority

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Introduction

Many people engage with the consumer investment market every day, making sensible decisions to grow their wealth. However, there is evidence that some consumers are making or are led into making poor investment choices. In some instances, this may lead to consumers holding a lot of money in cash, missing out on potential investment returns. In others it may lead them to invest in high risk products, which may not reflect their risk tolerance or their ability to afford the losses.

In particular, there is a concern that some investors are being tempted - often through misleading online adverts or high-pressure sales tactics - into buying complex, higher-risk products that are very unlikely to be suitable for them, do not reflect their risk tolerance or, in some cases, are fraudulent.

To help tackle investment harm, the FCA is designing a new campaign aimed at supporting consumers in making better informed investment decisions, targeted particularly at those investing in high-risk, high-return investments.

To inform campaign development and planning, the FCA commissioned BritainThinks, a leading market research agency, to conduct an in-depth exploration of self-directed investors' behaviours, attitudes and financial resilience.

The research took a rigorous, four-stage approach, including a review of existing literature (rapid evidence assessment), interviews, observing consumer behaviour online and an online survey, and engaged with over 550 people currently doing or considering self-directed investing. The sample was skewed towards those investing in or considering high-risk, high-return[1] types of investments.

Self-directed investors are defined as those who are making investment decisions on their own behalf, i.e. selecting investment types and making trades themselves without the help of a financial adviser.

[1] A list of high-risk, high-return investment types is provided in the appendix.

Key findings on the self-directed investor audience

Below we summarise four broad thematic findings that have come out of our research:

1. **Self-directed investors' investment journeys are complex and highly personalised, driven by underlying motivations, personality, confidence, knowledge and external factors (e.g. life stage, financial situation, lifestyle).**
   Three overarching self-investor archetypes have been identified, based on motivation, attitude and approaches to investing:
   - **Having a Go:** newer or less experienced self-directed investors who lack extensive knowledge about investing and are keen to do it on their own. They often look to learn through doing and adopt shortcuts to decision making which can include going with 'hyped' options they have heard a lot about, or viewing mainstream, big name brands as a short-cut to what they believe are 'safe' investing (e.g. investing in tech companies).
   - **Thinking it Through**: more experienced self-directed investors, or those with a professional or academic background in maths, finance, economics or business[2]. These self-directed investors feel they have high levels of knowledge and are very confident in their abilities (although this can be misplaced in reality). They often use shortcuts built up from experience and background knowledge – for example, seeing certain data patterns as indicating a 'safe choice'.
   - **The Gambler:** behaviourally very separate, this group tends to see investing on a similar level to 'betting'. These self-directed investors are particularly attracted to short-term high-risk, high-return options like foreign exchange (FX[3]) and contract for difference (CFDs[4]).

2. **Emotional and social motivations are often key in driving self-directed investing, either alone or in addition to more functional motivations.**
   Motivators have differing relative importance across different archetypes.
   - 'Having a Go' tend to be motivated by a combination of functional (making money, working harder) and emotional factors (challenge, novelty).
   - Thinking it Through are often more motivated by social factors, such as feeling like 'an investor', being able to prove their know-how and talking to others.
   - The Gambler are usually more emotionally motivated by the thrill and excitement and are looking to 'beat the game' and 'win'.

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[2] Our survey showed Thinking it Through are 38% more likely to have studied maths, business or economics related subject at university and 28% more likely to have worked or currently work in finance than Having a Go.
[3] Foreign exchange (FX or forex) refers to trading in currencies.
[4] Contracts for difference (CFDs) are financial contracts that pay the differences in the settlement price between the open and closing trade positions.

3. **Regardless of which archetype they represent, self-directed investors, particularly those investing in high-risk, high-return types, tend to have a high degree of confidence and claimed knowledge. However, the reality of their behaviours and beliefs around investing indicate that this can be misplaced.**
    - In particular, there is a striking lack of awareness and/or genuine belief in the risk of investing, with over four in ten (45%) not viewing 'losing some money' as a potential risk of investing – despite the presence of disclaimer warnings.
    - Additionally, most have high confidence in their abilities to identify scams and fraud, although in reality strategies largely rely on an investment opportunity 'not feeling right' or looking unprofessional.
        - Included in the research were self-directed investors that had been victims of scams and frauds who noted these had looked legitimate and professional.
    - Online ethnography with self-directed investors also showed that many generally do not have a systematic or strategic approach to investing when it is being observed, despite this being how they tend to describe their approach. Gut instinct is hugely important in decision making across archetypes, as is the use of short-cuts and rules of thumb to circumvent more extensive learning and research.

4. **A more diverse audience appears to be getting involved in self-directed investing, potentially prompted in part by the accessibility offered by new investment apps.** These self-directed investors skew more female, younger and more BAME than the more traditional, experienced investor set. They are particularly likely to use newer investment apps and lean on more contemporary media (e.g. YouTube, social media) for investing advice, tips and news. They are also swayed by the frequency of which they hear about certain opportunities on these apps, or how engaging the content or influencer is. This new, self-directed investor audience generally fit into the Having a Go (or to a lesser extent The Gambler) archetypes described above.

Background & Methodology

The context to this research

Academic research shows that common behavioural biases (such as overconfidence or limited attention) can prevent consumers from accurately assessing the cost and risk of different investments.[5]

Additionally, there have also been multiple factors that have changed the investment landscape in recent years and made it harder for some consumers to make good decisions. These include:

- Long-term low interest rates that have driven savers towards riskier investments in a search for better returns
- Consumers having to make more and more decisions themselves, and being under more pressure for investments to perform well (e.g. to provide adequately for retirement).
- Increasing challenges, particularly for relatively new investors, in assessing the risk factors of investments. For example, bonds are often marketed as low volatility which could be viewed as a proxy for low risk in terms of performance despite there being other risk factors that are inherent in bonds – particularly liquidity risk and higher risk of default amongst non-investment grade issuances.
- Technological changes and advancements meaning more and more difficult investment decisions are being taken online. Investment apps and direct marketing mean investment opportunities are more immediately accessible – and that there are entirely new ways of investing like peer-to-peer platforms. Online advertising is also far more targetable, and advertisers can test and adapt their approaches to maximise chances of encouraging consumers to invest.[6]

At the time of the research, recent events like Brexit and the coronavirus pandemic had also affected investor confidence and unsettled global financial markets. This new context has created a genuine drive to shore up a stronger financial future, and interest in investing has become evident. Those who previously invested may be considering new or different options to try to maximise their returns, and those new to investing may be considering their first steps. Criminals may also be capitalising on this opportunity to profit through investment and pension scams.

The FCA identified reducing harm in the consumer investments market as a priority in their 2020/21 Business Plan, and it is in this context that new research on self-directed investors was completed.

[5] Covered in: Gokul Bhandari & Richard Deaves, The Demographics of Overconfidence (2010); Carmen Keller & Michael Siegrist, Money Attitude Typology and Stock Investment (2006); European Commission, Distribution systems of retail investment products across the European Union (2018)
[6] https://www.fca.org.uk/publication/call-for-input/consumer-investments-market.pdf

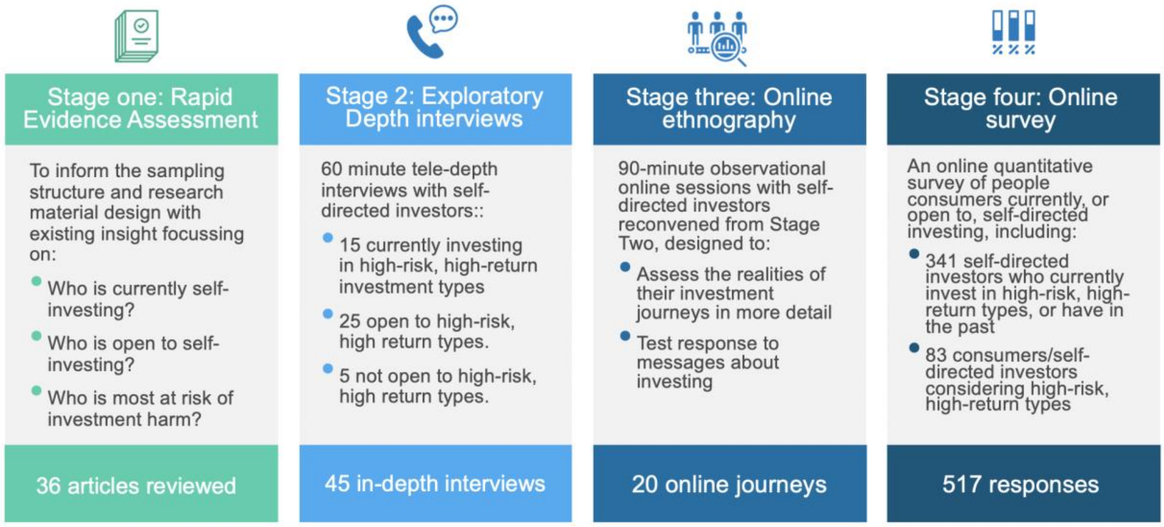
What were the research objectives?

The research aimed to understand:

1. The language self-directed investors use when talking about investing and their underlying attitudes around investments
2. How self-directed investors approach decision-making, particularly in regard to high risk, high return investments
3. Typical self-directed investor journeys and touchpoints
4. Key source and influencers in investment decision making

What was the process for delivering the research?

Four phases of research were delivered in an iterative approach and learnings were built into each phase.



This report provides a short summary of key learnings about the self-directed investor audience emerging from this multi-stage research.

We began the project with a Rapid Evidence Assessment (REA) to inform our sampling approach.

Through the REA we found relatively limited sources on *self-directed* investors specifically, and that most previous studies had tended to find that this audience was predominantly middle-aged, male, more affluent and often well-educated with a degree of financial literacy. However, the REA did identify a number of triggers and common factors that had implications for our sampling:

- The importance of life events as a trigger to becoming a self-directed investor. These can include:

  - Events that provide a sudden windfall (e.g. inheritance, redundancy, downsizing), where extra income is more likely to be perceived as money that you 'can afford to lose'
  - Events that result in a need for increased wealth or income (e.g. retirement, illness, getting a new mortgage).
- Certain attitudinal/behavioural characteristics rather than demographics are more consistently related to investment harm. In particular:
  - Overconfidence
  - Low financial knowledge and/or low confidence in their abilities
  - Those self-investing for the first time
- There was a widespread belief among self-directed investors that independent financial advisors (IFAs) do not offer good value for money.

For the qualitative study, that followed the REA, we recruited 45 consumers currently or open to self-directed investing. Through 90-minute telephone interviews we explored with them their investing history, behaviour, and attitudes. This included:

- 15 self-directed investors currently investing in high-risk, high return types (including CFDs, cryptocurrency, investment-based crowdfunding, peer-to-peer lending and FX).
- 25 consumers/self-directed investors considering investing in high-risk, high-return types
- 5 self-directed investors not open to high-risk, high-return types

We set quotas to ensure we included important factors identified in the REA, including a minimum number that had experienced a recent relevant life event, a spread of different self-reported confidence and knowledge levels, and a cap on the number using IFAs or other advisors. The sample was slightly skewed towards the largest group of self-directed investors (i.e. older, wealthier men) but was spread to include good coverage of other demographics, to ensure newer, younger self-directed investors were also covered.

In the research we also spoke to seven self-directed investors who had experienced investment fraud or scams.

Following this stage, 20 of these participants were also took part in a longer online researcher-observed or ethnographic session, with a spread of different demographics and archetypes (identified in the interim analysis). These sessions involved observing a typical investing journey they would engage in on the screens of their devices.[7]

The project was completed with a quantitative survey of 517 consumers, either currently or considering self-directed investing. Quotas were used to ensure a minimum sample of those considering or investing in high-risk, high-return types, and the fieldwork was monitored to ensure we achieved a spread of age, gender and other demographic characteristics. A full breakdown is provided in the appendix.

[7] N.B. Participants went through a typical investment journey up to the point of making the investment, but did not invest any money during the research session.

The self-directed investment landscape

This research points to significant changes in the landscape of self-directed investing, driving new demographics to consider this DIY investing approach – as well as high-risk, high-return[8] investment types specifically.

There are several factors that appear to be influential to this shift:

- **The rise of new investment apps**, such as Trading 212, FreeTrade and Crowdcube, have significantly reduced the barriers to entry and made self-directed investing (including in high-risk, high-return types like CFDs, cryptocurrency and investment-based crowdfunding) more accessible to consumers through low or no-fee models and easy-to-use smartphone apps.

  Investment apps like Moneybox, which round up spending and invests the ‘change’, also offer an easy, passive and low effort route into investing for those new to it, which can translate into more active self-directed investing later down the line.

  These formats are particularly attractive to younger, more technologically minded consumers. The FCA’s work on intergenerational differences in financial circumstances[9] identified innovation and technology, and the ability of younger generations to adapt to these advances as an important advantage in their interactions with financial services.

“I started looking at investment websites like Vanguard, but I felt completely out of my depth, almost like I didn’t belong there. Apps like Trading 212 are really easy to use – the accessibility really catered to me and they even have demo accounts to try it out first.”

- **Shifting preferences to online sources** to gain knowledge, advice and tips.

  The internet has democratised investment information and means self-directed investors now have direct access to the opinions of trusted experts (e.g. Warren Buffet, Martin Lewis, etc) at their fingertips.

  There has also been a huge rise in the volume of financial and investment influencers and content on popular sites like YouTube and social media (including Twitter, Reddit, Instagram and TikTok). This kind of (often bite-sized) catchy and engaging content is attracting new audiences.

  This extensive volume of content available helps drive a sense that success can come by ‘unlocking’ the right information and taking advantage of it.

  Some of the more traditional avenues of support and advice, such as networks and professional advisors, are still important to more experienced, or ‘traditional’ audiences (typically older and wealthier consumers). However, Google searching is now a prevalent way of gaining information and researching investments for almost all self-directed investor types.

“I started by looking at these social media accounts and looking at the portfolios they have. I thought I could relate with people that would share their journey and

[8] A full list of high-risk, high-return investment types is provided in the appendix.
[9] https://www.fca.org.uk/insight/coronavirus-and-intergenerational-difference-emerging-picture

- **The impact of covid-19 on time and finances.** During lockdowns, consumers have found themselves with more time on their hands and have been seeking new learning experiences and things to do. The FCA's Financial Lives[10] survey found that three in ten (28%) adults who had investments at the end of February 2020 said they have paid closer attention to their value because of Covid-19.
- Additionally, whilst many have been (and may be in the future) negatively impacted financially by covid-19, many have also seen an increase in the disposable income they have left over from a reduction in spending on going out and travelling/holidays. Three in eight adults (38% or 20.0m) have seen their financial situation overall worsen. Half of adults (48% or 24.9m) have not been affected financially by Covid-19, while one in seven (14% or 7.5m) have seen an improvement in their financial situation overall. As a result, many have had the means, the time and the motivation to 'try out' self-directed investing for the first time during the pandemic.

"With covid-19, I haven't been spending very much and I've had more time to dedicate to research and investing."

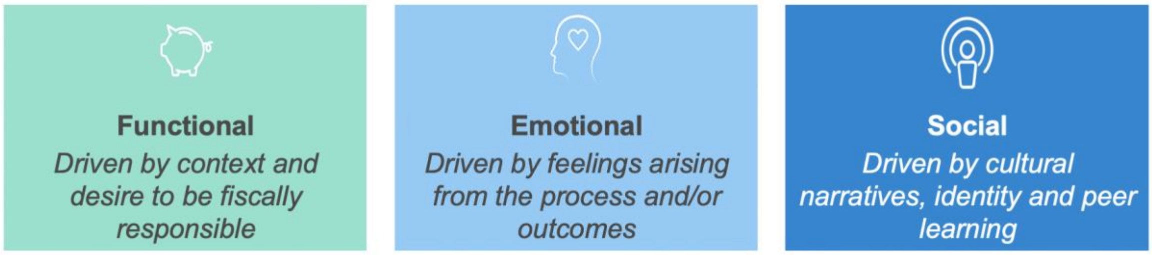
"Trading was something new I could put my mind to. My flatmate had recently got into it and I saw it as an interesting way to pass some time during

[10] Financial Lives 2020 survey: the impact of coronavirus https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf

Understanding self-directed investors

What drives self-directed investing?

There are a range of consistent drivers and motivations for self-directed investing, that can be categorised into three broad types:



The relative importance of these motivators varies across different types of self-investors, however **emotional and social motivators tend to be key in driving those investing in high-risk, high-return investment types.** Four in ten (38%) are being driven solely by these types of motivating factors. In particular, the novelty and challenge, as well as satisfaction that comes from making their own decisions, tends to be particularly important in driving these self-directed investors.

By comparison, those not investing in high-risk, high-return (usually investing in more traditional longer-term types such as stocks or ISAs) tend to be driven more by functional motivators – particularly around making their money work harder, given the context of low interest rates on savings.

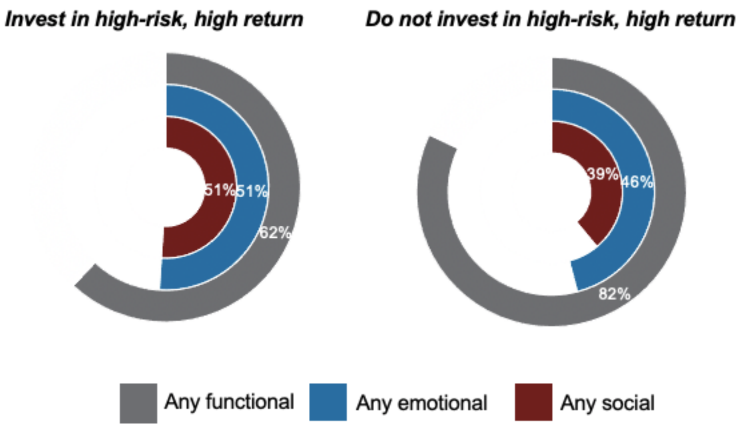


Figure 1: Top three motivators for investing by self-directed investor risk type. Base sizes: Invest in high-risk, high-return (341), Do not invest in high-risk, high-return (81).

"I like being in control it, feels very grown up - looking at a company and reading about them then having some ownership over it and how well you do."

"I wanted to see if my knowledge holds up, if I could use my learning to make some money."

"Any decision you make will have risk as nothing is guaranteed but you do get a feeling that makes you feel confident. A gut feeling is what drives that final investment."

Self-directed investing archetypes

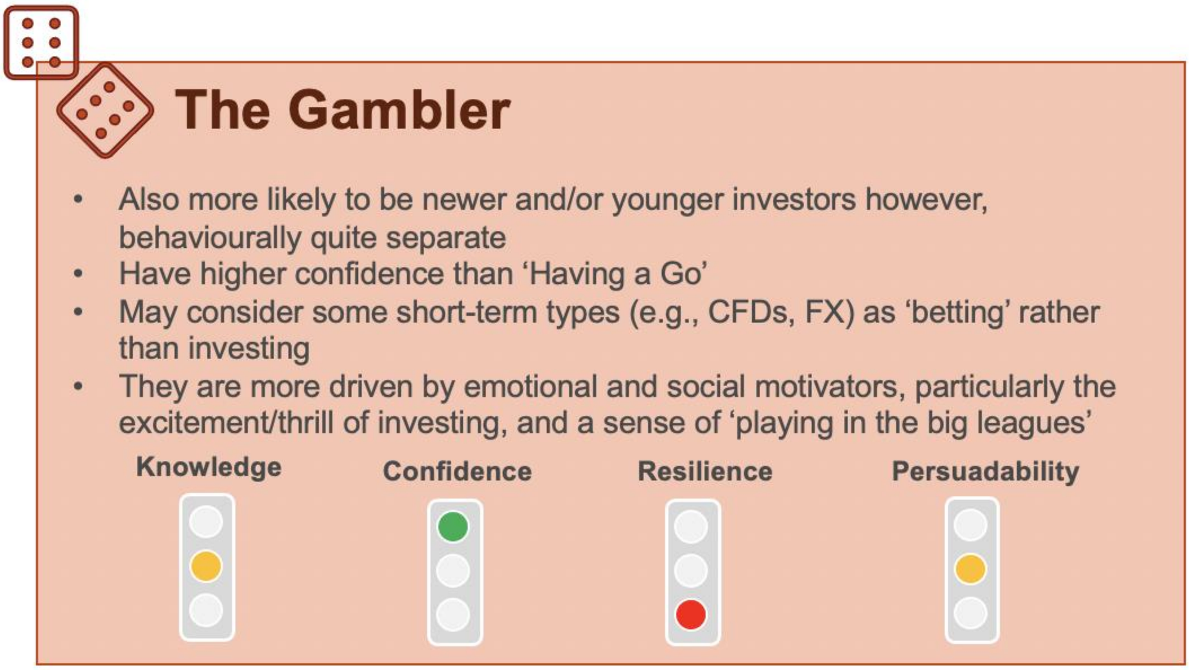
By looking at the drivers of investing and investing behaviours, our research identified three overarching 'archetypes' of self-directed investors investing in high-risk, high-return type:

Having a Go

- Typically newer and/or younger investors
- More likely to be using shortcuts both to try to get results (e.g. investing in hyped companies) or invest safely (e.g. investing in well known companies)
- More likely to be using social media and video and less likely to be using more traditional media
- Often motivated by emotional factors, such as the novelty

Thinking it Through

- Typically more experienced investors, or those with a background in business or finance
- Often feel more confident in their abilities but can overestimate their 'strategies'
- Have rules of thumb they've built up over time (e.g. seeing certain sectors as 'safe', patterns in data)
- Try to dedicate significant time to it as a 'hobby'
- Often motivated by social factors, such as their sense of self



Traffic light key: Knowledge and confidence refer to self-reported levels, persuadability indicates openness to new information on investing.

Underneath each of these overarching 'archetypes', self-directed investors can be split into further sub-groups based on their behaviours and approaches:

- **Having a Go** sub-archetypes:
  - **Follow the hype**: use frequency as a short-cut to investment decisions and will typically be driven by hearing a lot about a new opportunity (across mainstream news and media, social media and YouTube and/or by word of mouth). They are on the look-out for the 'next big thing' and follow trends when investing.

    "I started investing this year in bitcoin. I was initially skeptical but I watched a video saying it was the future and the dollar fell."

  - **Mainstream**: typically look for and take reassurance from familiarity when investing (e.g. using or investing in well-known companies or apps). They may also have rules of thumb and beliefs around the safety and security of certain sectors (e.g. utilities, transport, technology).

    "I would go for big companies which I'm knowledgeable about like Amazon, they're flying at the moment."

  - **Follower**: often follow the advice or tips of a small number of people who they trust. This can be experts or influencers they have come across online, and/or financial professionals and/or family, friends and colleagues.

    "My personal experience from investing was from my brother-in-law who was working for a financial advisor. He knows what he's talking about so I tend to do what he says."

- **Thinking it Through** sub-archetypes:
  - **Prudent**: typically more functionally motivated than the other sub-groups, they tend to be investing with specific longer-term financial goals in mind (e.g. children's university fund, retirement). They seek out lower volatility and stable returns, but do not always have the skills or knowledge to be able to assess these correctly and can be swayed by promises of 'guaranteed' returns.

    "I started investing in '98 – it was probably the Standard Life shares. I was looking at the rates of return compared to interest rates – all with a long-term view in mind."

  - **Hobbyist**: see investing as their hobby and dedicate a lot of time to keeping up-to-date with the sectors, markets and investment types they're interested in. They use their built-up knowledge and experience as a short-cut to make quick decisions in the moment.

    "I really like keeping up with news and trends. There are things I've learned over the years from watching how consistently some things perform – utilities, for example. Keeping informed also means you can spot dips that are probably just market panic."

  - **The Guru**: have very high confidence and self-perception of their knowledge level. Typically very experienced in investing, or have a background (academic or professional) in finance, business, maths, economics or science. They enjoy digging into financial data and graphs, as well as annual reports and more extensive data. However, their confidence in their abilities and assessment of risk can sometimes be misplaced.

Thinking it Through

Paul is in his early 50s and works in the oil and gas industry. He has been investing for over 15 years. He started out with 'lower risk' options through a company share scheme but began to look into higher risk opportunities over time as he learnt more about investing. For Paul investing is a challenge of his know-how and abilities, and a fun way to try to make some money. He prides himself on digging a bit deeper than others, looking at corporate reports and investor information, and being able to identify market 'overreactions' from his past experience.

Paul maintains a number of 'safer' investments include a spread of stocks and funds, alongside more speculative investments like peer-to-peer lending and sometimes CFDs and cryptocurrency when he finds a good opportunity.

He spends time researching his investments online via market reports and trusted media sources such as the FT or investment sites. Most of his friends also have self-directed investments and he has encouraged his wife to put some of her cash savings into investments because returns are so much better with the current low interest rates on cash savings. He is known as someone to speak to among his friends.

Identifying a new group of self-directed investors

The research findings also indicate that there is a new, emerging, distinct and more diverse audience getting involved in self-directed investing.

These newer self-directed investors tend to **skew younger, more gender balanced, more BAME and more C1C2DE**[11] than the 'traditional' audience who have been investing for longer. Whilst some of these differences will be due to natural fall-out, like age being linked to time investing, when taken together these shifts point to demonstrable change in the overall self-directed investor profile.

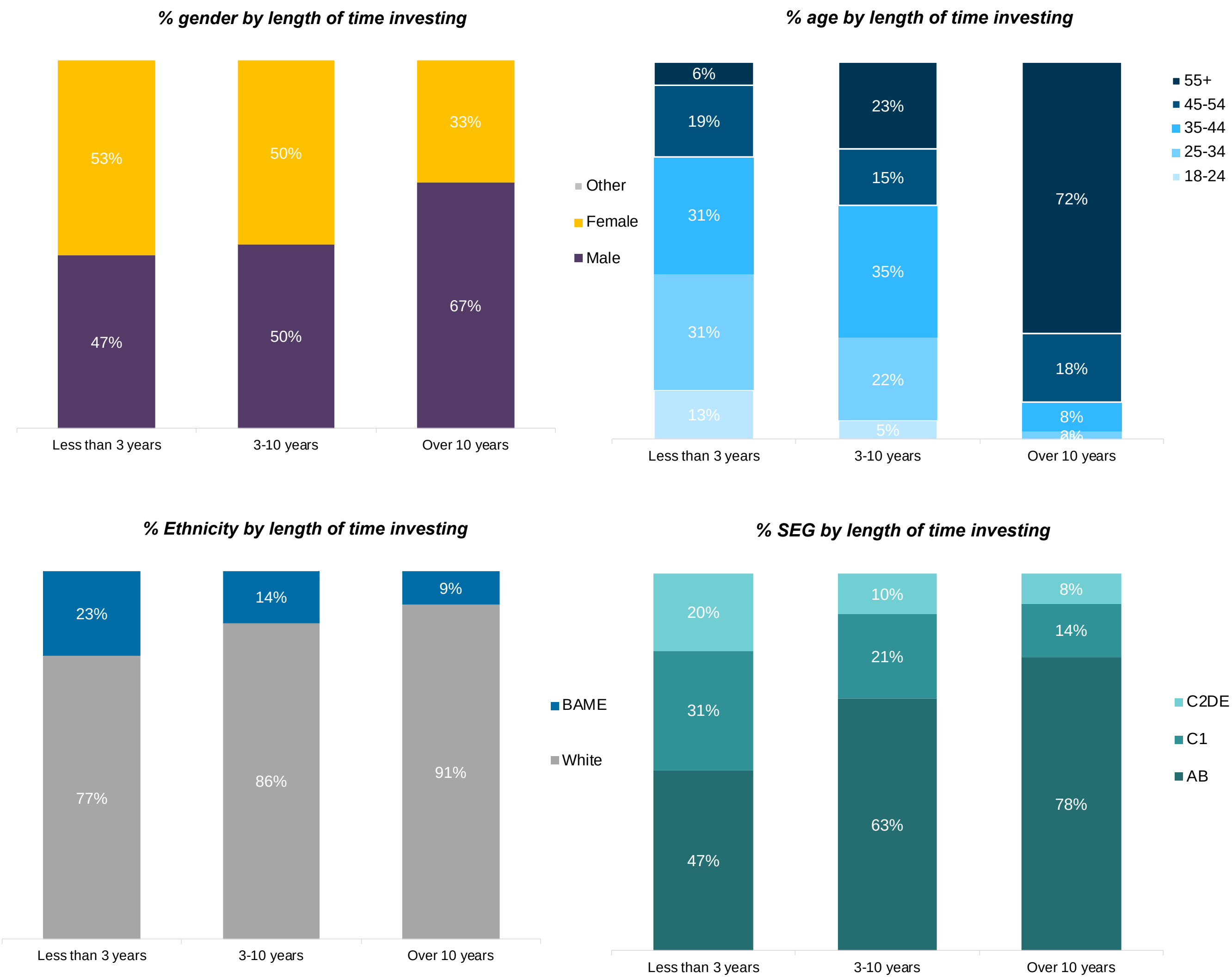


Figure 2: Demographics of self-directed investors by length of time investing. Base sizes: Less than three years (124), three-ten years (155), Over ten years (209).

[11] This refers to social grade (ABC1C2DE) which is based on the job of the highest earner in a household. C1 refers to supervisory, junior managerial or administrative jobs, C2 and D to skilled and unskilled/semi-skilled manual workers and E to those not in employment.

These newer self-directed investors also behave differently to more traditional self-directed investor sets, in terms of how they invest, where they go for information, their initial approach to investing and their financial resilience. They generally fit within the Having a go, and The Gambler archetypes described above.

Having a go

Rebecca is 25 years-old and began investing after being promoted at work recently, which saw her disposable income slightly increase. Rebecca has seen stocks in companies like Tesla and Amazon soar and is eager to find the next big thing. She has a keen interest in technology and has recently invested some money on Trading 212 into another innovative electric vehicle manufacturer that she's heard recommended on several YouTube videos. Feeling like she has a stake in this exciting new company is a big draw for her.

Rebecca is also looking into cryptocurrency, after hearing investors like Warren Buffet call it the future of money. She's a bit nervous about the recent ups and downs reported in the media but is keeping an eye out to try to take advantage of upcoming dips.

She is not always confident in her investment decisions and is still trying to establish which types of investments are suitable for her. She sees investing as a new challenge that's best learnt by doing and trying things out.

The Gambler

Tariq is 31 years old and has been investing in short-term investment types like CFDs and FX on and off for nearly five years. Investing to him is a bit of a game and a gamble – similar to the sports spread betting he does on football and rugby.

He first got into self-directed investments when his flat mate encouraged him to give it a try and he enjoys the challenge of trying to 'beat' the markets to win some money.

He is usually pretty confident in his ability to identify an opportunity in a dip in the market and his past successes make him feel he has an edge.

Tariq usually invests from the 'spending money' he has leftover after he has paid his rent and his bills, however he has, on occasion, taken a bit of money from his cash savings when he's spotted an opportunity in the market (a dip he thinks will recover quickly).

Gut instinct is very important in Tariq's decision-making process, as well as using some rules of thumb he has developed – for example, the connection between gold, oil and forex.

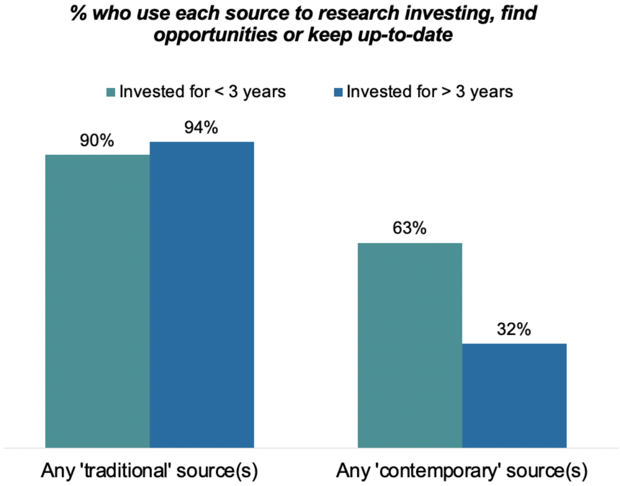
Shift to investment apps and information

This newer, more diverse group of self-directed investors lean towards new investment apps, with a particular focus on newer challengers that are commission-free and very heavily advertised online and on TV.

Over half (51%) of those who have been doing self-directed investing for less than three years use, or would considering using, a newer platform, versus four in ten (39%) of those investing for more than three years.[12]

[12] A full list of the platforms defined as 'newer' and 'heritage' is included in the appendix.

Similarly, whilst this new group still use some more traditional sources of information like investment-specific websites, they display a stronger preference and appetite for more contemporary forms of media and apps. They are over twice as likely to use YouTube and social media than those who have been investing for longer.



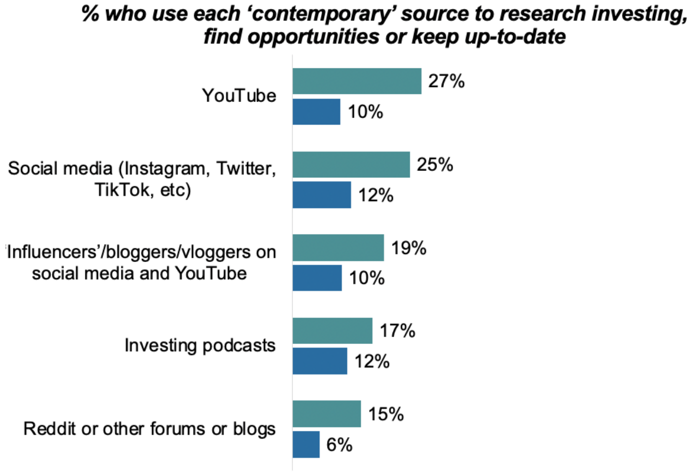


Figure 3: Sources used to research and keep up to date with investing by length of time investing. Base sizes: Less than three years (124), Over three years (364)

These sources are typically seen as more engaging and accessible, with a particular emphasis placed on the video content on YouTube, TikTok and Instagram. When picking content to consume on these apps, this audience tends to make a rapid judgement based on popularity (i.e. view count) and on the thumbnails and/or titles/captions. They typically look for content that is relatively polished and has a hook – although 'clickbait' or 'overly flashy' content can be a turn off.

Qualitatively, most self-directed investors report that they often come across investment opportunities in the course of their day-to-day lives, rather than specifically researching them. General news remains a key way to come across trends or information that might inform an investment or further research. However, this newer group are also less likely to be using traditional newspapers and news sites, and more likely to consume news via social media.

As a result, algorithms can play a large part in their investment decisions. Similar articles being prioritised and recommended by apps can create a perception of 'buzz' around a topic or investment type. This kind of buzz has led to surges in investment in cryptocurrency, and stocks like Tesla.

"There's so much information available online now. I'll come across investment recommendations and information on the Discover page of TikTok, or I can watch videos of people like Warren Buffet on YouTube to get advice and tips."

"I don't tend to research new investment opportunities outright. I wait to experience or come across something that catches my eye. With Beyond Meat, I had the burger and thought it was really nice – then Googled should I invest in Beyond Meat?"

Changing approach to risk

This newer set of self-directed investors also seem more likely to jump into higher risk investment types more quickly than more traditional audiences, who typically built up to risk over time.

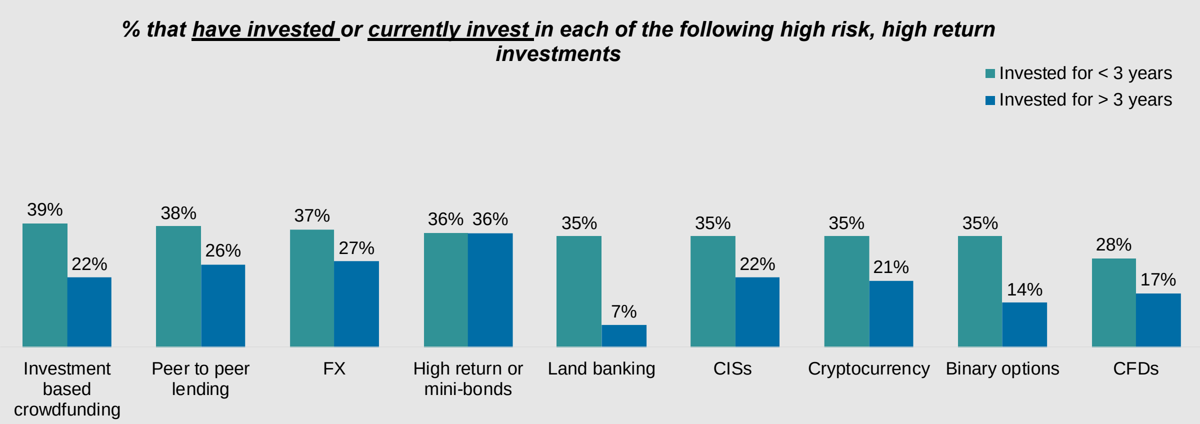


Figure 4: percentages of self-directed investors who currently invest or have invested in the past in each high-risk, high-return type. Base sizes: Investing less than three years (124), Over three years (364)

This pattern appears to be driven by newer self-directed investors being attracted by newer, more 'innovative' high-risk, high-return investment types like investment based crowdfunding and cryptocurrency. Crowdfunding has a particular draw of offering newer investors a chance to have a 'stake' in companies they support or value. Cryptocurrency is often frequently covered in the media and has been touted by online influencers and experts such as Elon Musk saying 'Cryptocurrency is potentially the cash of the future'– which creates a positive sense of 'buzz'.

However, there is evidence that this audience may not always have a full understanding of the level of risk they are invested in. Half (51%) of newer self-directed investors who invested in high-risk, high return products score their risk appetite as less than eight (on a zero to ten scale). This indicates they had an average openness to risk as opposed to a higher risk appetite of 8-10 that might be expected of those picking out a high risk investment product.

Additionally, newer self-directed investors appear to be less aware/knowledgeable about the risks of investing – or less believing that they personally will be impacted – with only two in five (41%) believing that losing some of the money they invest is a genuine risk.

Along with the findings on financial resilience (below) this may point to this new audience being less prepared for investment loss and more at risk of harm.

"(Regarding crowdfunding) if you don't take risks, you won't get the hard gain. Shares early mean greater % later. You really want to be at the foundation of a company. It also gives you greater

"Started investing about 18 months ago in currency in the Foreign Exchange market as it was the most lucrative and was easily accessible… Shortly after I went into cryptocurrencies."

Signs of lower financial resilience

Whilst this newer audience of self-directed investors are more likely than previous generations to hold high-risk, high-return investment types – particularly at the start of their investment journeys – the data also points to them being more at risk from financial detriment.

Nearly two thirds (59%) claim that a significant investment loss would have a fundamental impact[13] on their current or future lifestyle, compared with two in five (38%) of those who have been investing for more than three years.

The data points to this audience being more likely to undertake self-directed investing without having a significant cash buffer built up first, and also as being less likely to hold comparatively 'lower risk' investment types such as regular stocks and equities or stocks and shares ISAs.

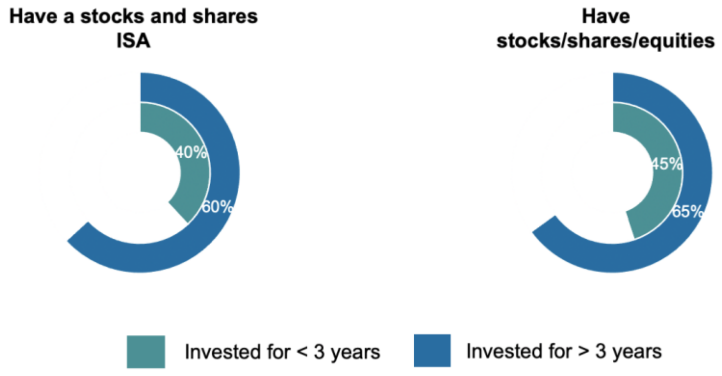


Figure 5: percentages of self-directed investors who hold 'lower risk' investment types. Base sizes: Investing less than three years (124), Over three years (364)

They are also far more likely to be under financial pressure in their day-to-day lives. Those that have been investing for less than three years are more than twice as likely to see their household bills and credit commitments as a burden[14].

Whilst many in this audience claim to plan out their investment amounts in advance, several participants in the research later contradicted this by talking about 'dipping back into' investments when short of cash. This also points to why trading apps are popular for this audience. The lack of commitment, frictionless access to cash when needed and user interface and design the encourages short-termism. Similarly, the quantitative data speaks to this audience being less secure and more likely to be or become dependent on the money they use for investing in the short-term. It is also worth noting that this financial pressure has already increased under covid-19, with two in five (41%) having missed or deferred a payment due to the pandemic, compared to one in five of more experienced self-directed investors (18%).

[13] Those selecting any of: 'I'd struggle to make ends meet', 'I would have to make some extra income', 'I might have to downsize my house', 'I wouldn't be able to reach my goals'.
[14] 71% of those investing for less than three years vs. 31% of those investing for more than three years see household bills and credit commitments as 'somewhat' of a or a 'heavy' burden.

Implications for the future

The research findings point to a shifting landscape where new demographics and types of consumers are being attracted to self-directed investing. Newer apps have reduced the barriers to entry, via easier to use and more accessible smartphone apps, low or no fees, low starting deposits and campaign messaging that often appeals to ‘fear of missing out’ or focuses on these reduced barriers.

In recent years, a younger, more diverse set of consumers have begun to get involved in self-directed investing, compared to the more traditional self-directed investing audience, which typically skews older, male and wealthier. This newer audience behave differently, often being drawn to high-risk, high-return investment types early (such as investment based crowdfunding, cryptocurrency, CFDs) and often leaning more towards contemporary online sources like YouTube and social media for investing knowledge, advice and tips.

Their behaviour and attitudes could also underline that these newer investors are at risk of harm. Whilst they are more drawn towards higher-risk options, they also have lower knowledge or belief in the risks of investing (for example, losing some money) and many appear not to be set up for significant losses. This group is less likely to diversify risk exposure (e.g. to also hold ‘lower risk’ regular stocks and shares, ISAs or large amounts of cash savings) and more likely to be renting or early in their mortgage than own their own property outright. As a result, they are more likely to become dependent on the money they hold in (often high-risk) investments and more likely to struggle to make payments or fail to reach key goals if losing a significant portion of these.

About BritainThinks

We are an international insight and strategy consultancy, focused on providing our clients with the insight they need to make better decisions. We do this by putting the people who matter most to our clients organisation at the heart of their thinking.

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Appendix

Full research sample breakdown

Quantitative sample:

Total	All respondents	517
Region	North	119
	South	224
	Midlands	77
	Devolved nations	63
Gender	Male	287
	Female	230
SEG	AB	279
	C1	149
	C2DE	60
Age	18-29	53
	30-44	166
	45-64	218
	65+	91
Ethnicity	White	444
	BAME	71
Health condition	Long-term health condition	89
	No long-term health condition	423
Household income	Under £30,000	56
	Between £30,001 - £50,000	219
	Between £50,001 - £100,000	186
	Over £100,000	52
Household situation	Own house outright	267
	Mortgage	178
	Renting	57
	Living with family or friends	13
Cash savings	Less than £5,000	92
	£5,001 - £20,000	132
	£20,001 - £100,000	177
	Over £100,000	96

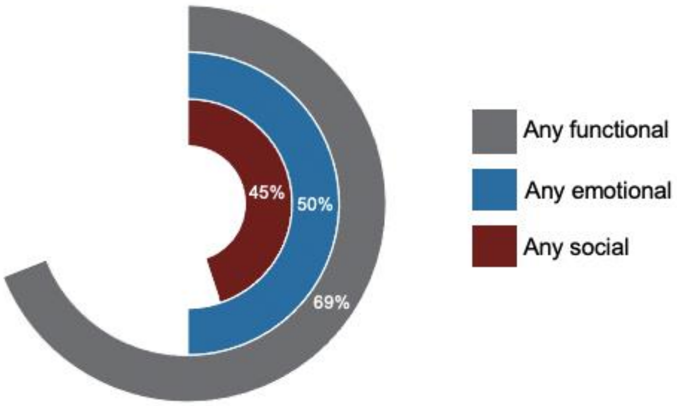
High-risk, high-return investment types

Investments defined as high-risk, high-return within this research were:

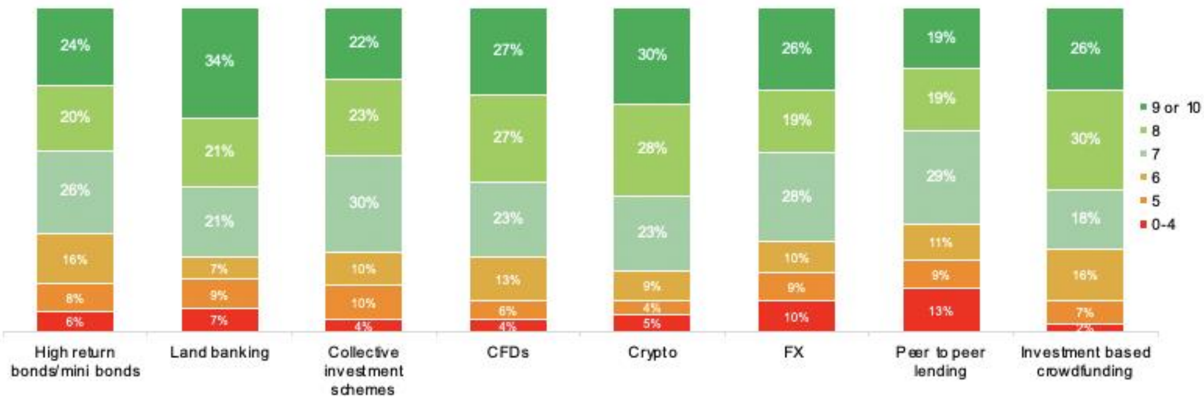
- Investment-based crowdfunding
- Peer to peer lending
- FX/forex
- High-return or mini-bonds
- Land banking
- Collective Investment Schemes (CIS) not regulated/authorised in the UK
- Cryptocurrencies or exchange tokens
- Binary options
- Contracts for Difference (CFDs)

Supporting data

Percentages of self-directed investors placing each type of motivator in their top three reasons for investing



Percentages of self-directed investors' self-defined risk level by the high-risk, high return type they hold



Percentages of self-directed investors currently using or considering using each platform by length of time investing

Platform type	Investing < 3 years	Investing > 3 years
Newer platforms*	51%	39%
Heritage platforms**	46%	54%

Base sizes: Investing less than three years (124), Over three years (364)

** Any of: Trading 212, Coinbase, eToro, Moneybox, Moneyfarm, Wealthify, Upstart, FXPro, Plus500, Binance, Peerform, Degiro, Kraken, Pepperstone, Lending Club*

*** Any of: Hargreaves Lansdown, Vanguard, Fidelity, Interactive Investor, AJ Bell, IG, Saxo Markets, Funding Circle, Prosper, Avatrade*