INVESTMENTS
& WEALTH MONITOR

A reprinted article from July/August 2021

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By April Rudin

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The line between investing and trading certainly has blurred since early 2020. The long-term rise of the retail investor converged with zero-fee trading, and both Fidelity and Charles Schwab enjoyed a stellar year.[1] But no one grabbed attention quite like Robinhood Markets Inc. With its friendly mobile app and zero-fee trading for stocks, options, and cryptocurrencies, Robinhood claims to "democratize investing." Investing shouldn't be merely easy or cheap, Robinhood says; the time has come for it to be fun.

Judging by the frenzied retail trading activity on the platform during the coronavirus lockdown—including the GameStop and Dogecoin manias—audiences are listening. This has some wealth managers worried. Low-cost platforms already are challenging the status quo; is gamified trading the industry's new competition?

Not quite. New evidence suggests that patience-preaching wealth managers needn't be worried about their target audience shifting to Robinhood anytime soon. However, I'm also here to say, "Don't get complacent." For money managers, the 2021 trading boom reveals three crucial lessons.

WHY ROBINHOOD ISN'T THE FUTURE OF WEALTH MANAGEMENT

Trading has been a recreational activity since long before Robinhood burst onto the scene. But in 2020 and 2021, between lockdowns and social distancing, trading

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for fun became an easier sell. Now that restrictions have eased, the day-trading bonanza is cooling off.[2] Those who conflated gambling with investing are moving on to other interests.

Those folks never were wealth managers' true prospects. But what about the keen investors who truly believe frequent trading delivers long-term financial gains?

For this client segment, Robinhood will struggle to live up to its promise. Decades of research repeatedly affirms the same outcome: Frequent trading leaves investors poorer. On Robinhood, trading activity already is much higher compared with other platforms.[3] During Q1 2020, Robinhood's users traded nine times as many shares as E-Trade customers,and 40 times as many shares as Schwab clients.

And now, new research shows that's only half the problem.[4] The Robinhood app displays far fewer stock tickers compared with other brokerage platforms. Instead, the Robinhood app highlights stock lists such as "Top Movers," which features stocks with the largest daily price moves.

Simplified information mixed with user inexperience creates a potent and dangerous cocktail, the study showed. It leads to attention-driven buying and buy-side herding events—usually followed by negative returns.

WHEN IT COMES TO REAL MONEY, YOUNG INVESTORS LIKE IT BORING

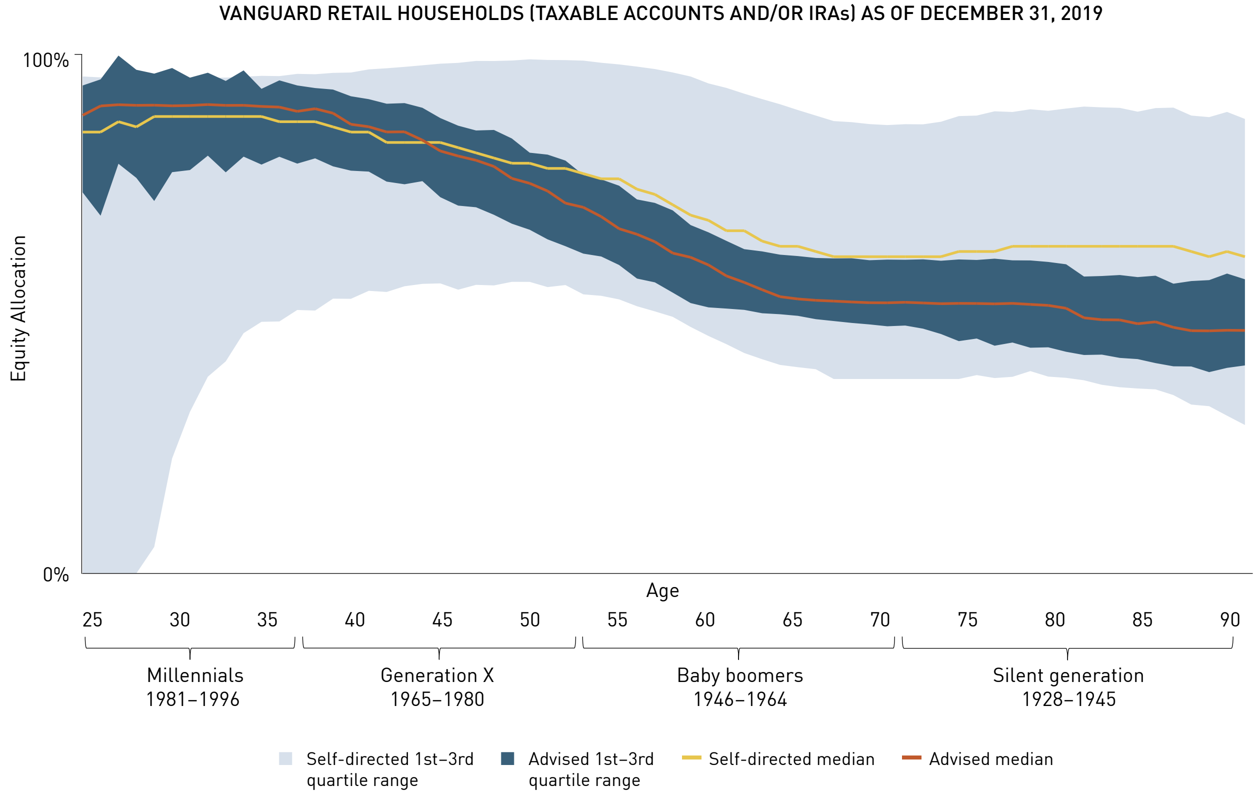
Trading is nothing like investing, but do retail investors know it? According to Vanguard, the answer is a resounding yes. The asset-management giant tracked more than 5 million of its retail household clients, from 2015 through Q1 2020. Its recently published report, "How America Invests 2020," reveals that among clients who trade, only a third are characterized as "frequent traders."[5]

Trading enthusiasts are not the young crowd, either. Typical "individual security enthusiasts" are in their mid-50s, nearly 20 years older than typical "ETF enthusiasts."

Young investors are more likely to invest in exchange-traded funds (ETFs), and they also tend to be more bearish compared with their older peers; they hold much of their capital in money funds. And it's mostly the advised young cohorts who are allocating more of their holdings to high-return assets, as shown in figure 1.

Figure 1

AGE-BASED EQUITY ALLOCATIONS



Source: Vanguard (2020)

WEALTH MANAGERS: DON'T LET A GOOD CRISIS GO TO WASTE

That advisors' DNA is the polar opposite of Robinhood's values isn't a problem—it's a business advantage. The 2021 day-trading rush may have eased, but the real lesson is just how well emotional messaging works. Here are three ways wealth managers can get smart with their marketing by showing just how much they're unlike Robinhood.

MAKE IT ABOUT SOMEONE

Robinhood tells clients it's breaking open sacred financial halls—previously reserved for the big guys—and letting everyone in. For wealth managers, the opposite of being for everyone is being for someone. For years I've been saying, "Pay attention to millennials, they're an important segment." Now, as millennials are getting deeper into investing, becoming relevant for a particular niche is just as important.

It may not be about age at all.[6] Instead, focus on behavior and life-stage events. Some millennials don't want to rely on technology when getting updates about their investments and prefer to hear directly from you. Similarly, you may have baby boomer clients who don't want a call or an email unless it's an urgent situation and prefer to access a website or an app for routine news and account updates.

MAKE IT ABOUT THE EMOTION

In 2020, just as the pandemic was ramping up, I wrote for the *Financial Times*, "Wealth managers must not forget that emotional appeal is critically important in effective marketing, especially when the products and services themselves look pretty similar."[7]

More than a year of loss, stress, and anxiety has made this statement even more apt. The emotional opposite of gambling is security. Financial decisions are inevitably risky. Trading offers thrill and excitement. But for major financial decisions, clients want the emotional opposite—they want security.

MAKE IT ABOUT THE GOAL

When I recently moderated a webinar called "The Rise of the Digital Retail Investor," panelists commented about how savers, investors, and traders are different client types.[8] They agreed, however, that all money management eventually comes down to securing the client's financial future.

Robinhood chooses to focus users' attention on risky products and the very near-term. Its emotional trigger is telling clients they can access privileges previously reserved for the few.

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WEALTH MANAGERS' HIDDEN LEAD . . .

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For wealth managers, the trigger is the takeaway. Your marketing needs to tap into the same potent emotional desire—but for the longer term. It could be for a wonderful holiday in one year or a gorgeous property in five. In 2021, now that we can see beyond the pandemic, clients want to hear that those things are within their reach.

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This article originally appeared in *Forbes* (June 3, 2021), https://www.forbes.com/sites/aprilrudin/2021/06/03/wealth-managers-hidden-lead-over-robinhood/?sh=3d3f46587a80.

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