

Retail Investors, Social Media, and Equity Trading

Retail investors and social media have been highlighted as key factors in episodes of “meme” stock volatility in equity markets in the first half of 2021. Longer-run changes in demographics, regulations, and technology as well as behavioral factors that could interact with these structural changes may have influenced recent trends in the demand for and supply of retail trading opportunities in equity markets.¹ To date, the broad financial stability implications of these developments have been limited, with bursts of retail-led trading volatility that have rapidly subsided. Still, the evolution of the effects of these changes warrants continued monitoring.

The revival of household financial risk appetite and stock market participation

Figure A. Household Willingness to Take Financial Risks and Direct Stock Ownership



Source: Federal Reserve Board, Survey of Consumer Finances.

Household financial risk appetite appears to be cyclical. Over the past three decades, a survey-based measure of the share of households reportedly willing to take financial risks reached a peak in 2001, hit a trough in 2009, and then rebounded notably. By 2019, the most recent survey, it was again approaching its 2001 peak (figure A).² Household direct stock ownership appears to follow risk appetite to some degree. Following a substantial, prolonged decline that started after the dot-com bubble burst in 2001, the share of households directly owning stocks stabilized and then rose appreciably from 2013 through 2019.³

Because equities feature higher volatility and expected returns than many other financial assets, they tend to be more attractive to younger and less risk-averse investors. According to survey data, the share of younger consumers willing to take risks has been significantly higher than that for other age groups for decades. Relatedly, in recent years, the share of direct stock owners aged 35 or younger surged nearly 6 percentage points after 2013.

Market structure changes

Along with the rise in risk appetite and the growing share of younger retail investors, access to retail equity trading opportunities has expanded over the past decade. One factor contributing to this expansion has been the elimination of trading commissions at major retail brokerages for both stocks and

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