phwealth Winter Update

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> While individual countries have been wrestling with various approaches to Covid-19 suppression or elimination, an emerging international theme in recent weeks has been a move towards Stage 5 – Acceptance.

It still seems extraordinary that something we knew virtually nothing about just 18 months ago, has so utterly dominated global news, our feelings of economic and personal wellbeing, and the normal functioning of our daily lives, ever since.

Of course, we are talking about Covid-19.

Given the highly unusual circumstances surrounding the pandemic, the evolution of our collective response to it has conformed quite closely to the five stages of grief outlined in the Kübler-Ross Grief Cycle[1]:

1. **Denial:** This virus won't affect us.
2. **Anger:** You're restricting our freedom by making us stay at home?!
3. **Bargaining:** If we wear a mask and social distance, everything will be fine, right?
4. **Sadness:** In spite of everything, there is still no end in sight.
5. **Acceptance:** Ok, this isn't going away; we have to figure out how to carry on.

While individual countries have been wrestling with various approaches to Covid-19 suppression or elimination, an emerging international theme in recent weeks has been a move towards Stage 5 – Acceptance. This theme, propelled by rapidly advancing vaccination programmes internationally, marks another important step on the global road to recovery.

Living with Covid-19

In the UK, newly installed Health Secretary Sajid Javid said the country would "have to learn to live with" community transmission in order to restore freedoms and that "no date we choose comes with a zero risk from Covid".

Similarly, in Australia, Prime Minister Scott Morrison recently outlined a four-phase plan for the country to move from trying to suppress Covid-19 to living with the virus once enough of its population is vaccinated.

A widespread adoption of this mindset would inevitably mean that our current 'blunt instruments' of rolling lockdowns and blanket travel bans would eventually be replaced by measured pragmatism.

[1] *The Kübler-Ross Grief Cycle model was originally used to describe the common stages of grief that applied to terminally ill patients.*

As vaccination rates continue to grow and the global economy continues to turn its attention towards living more effectively with Covid-19, it also reinforces the likelihood that the global recovery currently underway, may have more upside to come.

The strong global economic growth evident in recent quarters is not difficult to understand. Fiscal policy (government spending) and monetary policy (interest rate management) are both still highly stimulatory, and households in many countries have also had access to increased cash reserves resulting from lower spending due to lockdowns and reduced travel. These factors, in conjunction with supply side constraints due to shipping issues and raw material bottlenecks has, in recent months, seen demand comfortably outstripping supply. This has resulted in sharp price increases around the globe, with average inflation in May across the 37 OECD[2] countries reported to be growing at its fastest pace since October 2008.

This has had some market observers buzzing about the potential for the world economy to move towards more persistent higher inflation. As we reported last quarter, there are plausible arguments both for and against this.

The inflation question

Even as we write this, the debate continues between central bankers and the general market about whether these recent price hikes are likely to be transitory or something more permanent. For the moment at least, the argument is being won by the central bankers who maintain that today's inflation spurt is due to nothing more than the unleashing of considerable pent-up demand, which is likely to be temporary, and will gradually revert back to a more reasonable level.

This is also the view of our own Reserve Bank of New Zealand, who noted in their 26 May monetary policy statement that "a range of domestic and international factors are expected to lift headline inflation above 2% for a period, but these factors are expected to be temporary".

What's been conspicuous over the most recent quarter is that equity investors don't appear to have been remotely distracted by this debate. Even if there may be a little more inflation on the horizon, it generally means the prices most businesses are charging for their goods and services are going up. That's not necessarily a bad thing for future business profitability! Of course, it's not quite that simple. Cost pressures, supply constraints and other factors will all have a role to play in influencing corporate profitability, but a small uptick in prices does not, in itself, mark the death-knell for equities.

Markets overview

Global share markets were again generally very strong over the second quarter. The main US[3] market recorded another impressive gain of 8.5% and positive investor sentiment was also observed, in different measure, around the globe. Across other notable international developed markets, Europe (excluding the UK)[4] gained 7.1% and the UK[4] itself delivered a solid 5.8%. Japan[4] was something of an outlier returning just 0.2% with the nation appearing divided about whether or not they could (or should) continue with their scheduled hosting of the Olympic Games in July (the decision was made to proceed).

Emerging market returns painted a broadly similar picture. Of the four largest emerging market constituents, China[4] returned 2.1%, while South Korea[4], Taiwan[4] and India[4] posted quarterly results of 4.4%, 4.6%, and 8.8% respectively. Higher crude oil prices helped drive strong gains in both Russia and Brazil, with these markets jumping 11.1% and 9.3% respectively. In aggregate, the emerging markets investment sector delivered 5.1%[5] over the three months from April to June.

For the second quarter in a row, the 'battle of the Tasman' was decisively won by Australia[6] with our near neighbour returning an impressive 8.3% return while the New Zealand[7] market delivered just 0.9%.

> Global share markets were again generally very strong over the second quarter.

[2] *Organisation for Economic Co-operation and Development.*

Following an extended period where New Zealand shares have generally outperformed their Australian counterparts, investor optimism about the global recovery, and the broad-based strength evident in commodities and metals prices, may be creating a stronger tailwind for the Australian market.

Fixed interest markets experienced a slight hiatus following the previous quarter's inflation-hyped yield spike, as investor expectations moderated. The Federal Reserve policy meeting in June was keenly anticipated and ultimately delivered a slight shift in tone, with the committee indicating that US interest rates were likely to rise earlier than initially expected. While seemingly an endorsement of the previous quarter's yield spike, it more pertinently reinforced the Federal Reserve's likely intolerance of an inflation overshoot by removing the assurance of indefinite policy/stimulus support.

In the end, far from spurring further increases in longer term Treasury yields, market participants were comfortable allowing these yields to slowly drift lower. As a result, the US 10-year Treasury yield declined from 1.74% to 1.47% over the quarter, which had a positive impact on quarterly returns from the international fixed interest investment sector.

Around the rest of the world, government yield curves were relatively less affected than in the US, with most other global Treasuries trading within fairly narrow ranges. With minimal price action outside the US, the World Government Bond Index[8] was essentially flat for the quarter, gaining 0.1%, while the Global Aggregate Bond Index[9] containing more credit and duration exposure was up 1.0%.

On 26 May, the Reserve Bank of New Zealand (RBNZ) once again held New Zealand's overnight cash rate (OCR) at 0.25% and signaled very little change in their expectations. Embedded in their review was the continued projection that our OCR will begin to increase in New Zealand from around the middle of 2022. With the market viewing this as a largely business-as-usual update, New Zealand's 10-year government bond yield was almost unchanged over the quarter and the New Zealand Corporate A Grade Bond Index[10] advanced 0.3%.

Conditions remain favourable for growth investments

Overall, it continues to be an excellent time to be a diversified investor, and particularly so if you have a reasonable exposure to growth investments. The significant fiscal and monetary support that has helped propel asset markets over the last 15 months will evolve as circumstances dictate, but any change will only be incremental.

> While residential property prices seem to have dominated local headlines recently, those keeping an eye on other traditional (and more liquid) investment sectors, like shares, will have noticed some stunning returns coming from these markets as well.

This should mean the supportive share market environment we have enjoyed of late, looks set to remain broadly in place for a little longer yet.

While residential property prices seem to have dominated local headlines recently, those keeping an eye on other traditional (and more liquid) investment sectors, like shares, will have noticed some stunning returns coming from these markets as well. For example, in local currency terms, the highly influential US sharemarket[3] has delivered 40.8% in the last 12 months alone; by any measure a very significant return.

What's perhaps more surprising than the strength of these returns is that they have occurred in a global environment, which is still very much focused on waging a war against Covid-19. As nations progressively turn their energies towards constructively managing the ongoing threat of Covid-19 whilst getting on with life, it will be interesting to see how this may further influence investment market returns in the months ahead.

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[3] S&P 500 Index (total return in USD)
[4] MSCI Country and regional indices (gross dividend in local currency)
[5] MSCI Emerging Markets Index (gross dividend in USD)
[6] S&P/ASX 200 Index (total return in AUD)
[7] S&P/NZX 50 Index (gross with imputation)
[8] FTSE World Government Bond Index 1-5 Years, hedged to NZD
[9] Bloomberg Barclays Global Aggregate Bond Index, hedged to NZD
[10] S&P/NZX A-Grade Corporate Bond Index

Key market movements for the quarter

The second quarter of 2021 again saw generally positive returns for riskier investments, this was supported by the rollout of the Covid-19 vaccines paired with ongoing supportive fiscal and monetary policy. Many developed nations saw falling rates of infection, resulting in loosening of restrictions which helped propel economic output and consumer spending. These, in turn, strengthened the outlook for future economic growth which pushed markets higher.

Covid infection rates generally reduced in developed nations as mass immunisation started to yield results. Vaccination rates globally are trending upwards and at the end of June, over 40 million Covid-19 vaccine doses were being administered daily. 50% of the US and the UK populations had been fully vaccinated.

Although the global supply chain remains stretched (e.g. new car production has been held back by a global semiconductor shortage), corporate reporting and economic indicators through the quarter were generally positive and in line with market expectations. We remain in a so called 'goldilocks' environment for share markets where strong growth and accommodative monetary and fiscal policy (i.e. low interest rates and high levels of government expenditure) are very conducive to growth in company earnings.

Fears of runaway inflation dominated the headlines early in the quarter. The reopening of economies following the relaxation of lockdowns in the US in particular, unleashed pent-up consumer demand. Coupled with a generally higher supply of money through government spending programmes, very low interest rates, and ongoing supply chain issues, this spike in demand quickly translated into higher prices. Central banks generally signalled they expect this inflationary pulse to be transitory, rather than a significant and persistent issue. This message was accompanied by the clear indication that central banks remain ready and willing to use the tools at their disposal to curb unsustainable levels of inflation, most notably by increasing interest rates in the future and tapering current asset purchase programmes.

International shares

+7.6% *(hedged to NZD)*

+7.7% *(unhedged)*

The quarter was relatively plain sailing. The US's flagship S&P 500 Index (total returns in USD) enjoyed another strong quarter, advancing +8.5% for the quarter for a remarkable +40.8% return over the past 12 months.

In Europe, share market performance was also very strong. The MSCI Europe ex UK Index (in local currency) gained +7.1% through the quarter led by Switzerland (+10.0%) and France (+8.6%). The MSCI Europe ex UK Index has gained +30.3% over the last 12 months.

British equities were also strong, although again did not increase at the same rate as their neighbours. In GBP terms, the FTSE 100 advanced +4.8% for the quarter, however most of these gains were generated in April and May as concerns about the impact of the rapidly spreading delta variant began to weigh on growth expectations in June.

Japanese equities lagged developed markets peers with their state of emergency continuing until late June. With the Tokyo Olympic games set to commence 23 July, these protective measures were considered a necessity. The MSCI Japan Index increased by +0.2%.

The performance of small capitalisation companies generally lagged larger companies in the quarter, although still held the upper hand over the last 12 months. Economically sensitive industries such as telecommunications and energy were among the best while utilities struggled. The real estate sector enjoyed a good quarter after generally lagging since the emergence of Covid in early 2020.

In New Zealand dollar terms, the MSCI World ex Australia Index delivered a quarterly return of +7.6% on a hedged basis and +7.7% unhedged. The rolling 12-month return for the New Zealand dollar hedged index was +36.2%, while the unhedged index gained 'just' +28.3%.

Source: MSCI World ex-Australia Index (net div.)

Emerging markets shares

+5.0%

Emerging market equities generated gains as well, albeit lower than developed markets. Slower vaccine roll outs, and the delta variant, contributed to an increase in infection rates, especially in India, which weighed on investor sentiment. A relatively strong US dollar and the prospect of increasing interest rates also had a negative impact, as most companies in these nations issue debt in US dollars. Both of these contribute to increasing debt servicing costs which will impact profits.

In spite of these impediments, most emerging share markets delivered gains. Brazil and Russia were the best performing heavyweights as the recovering global demand for oil pushed crude prices up, enhancing profit expectations for companies (and countries) more exposed to this sector. Korea, Taiwan and India all had middling gains, while China lagged the group as internal regulators increased scrutiny on many of the larger companies here.

In unhedged New Zealand dollar terms, the MSCI Emerging Markets Index produced a quarterly return of +5.0%, for a +30.5% return over the last 12 months.

Source: MSCI Emerging Markets Index (gross div.)

+0.9%

New Zealand shares

Domestic equities again lagged other markets through the quarter with the broad S&P/NXZ 50 Index producing a return of +0.9% and a +11.2% return over the last 12 months. This result was directly due to a relative underperformance of the larger companies on the exchange.

a2 Milk continued its recent slide, down -25% for the quarter and now a phenomenal -70% lower than its share price high of only 12 months ago. Other large companies Ryman (-13.3%), Auckland Airport (-7.1%), and Air New Zealand (-7.2%) struggled with their corporate earnings announcements generally falling short of market expectations. Air New Zealand continues to battle in this challenging environment and are clearly hampered by the lack of clarity about the prospects for a general reopening in the border anytime soon.

At the other end of the spectrum, Contact Energy (+18.2%) saw positive price action as their clean energy solutions stimulated investment inflows from foreign investors and along with Mainfreight (+10.9%) and Infratil (+10.1%) manged to keep the index in the black.

Source: S&P/NZX 50 Index (gross with imputation credits)

+6.8%

Australian shares

Australian share market returns were strong over the quarter. The S&P/ASX 100 (the largest 100 companies in the Australian market) and the S&P/ASX Small Ordinaries Index (the companies ranked 101 to 300 in the Australian share market) both returned +8.5% in Australian dollar terms. Over the last 12 months small capitalisation companies have been a bit stronger with the S&P/ASX Small Ordinaries Index up +33.2% versus +27.9% for the top 100 companies.

Among the top performers were Rio Tinto (+14.4%) who benefited from continued increases in global demand for the industrial metals they mine, and Commonwealth Bank (+16.0%) who are set to write more (and larger) loans due to strong rebound in the Australian residential property market.

Returns to unhedged New Zealand investors were slightly reduced by a small depreciation in the Australian dollar over the quarter.

Source: S&P/ASX 200 Index (total return)

+0.1%

International fixed interest

The main event for market observers in international fixed interest markets was how the US Federal Reserve would react to increasing inflationary pressures. The US consumer price index, which measures the average increase in the price of goods for American consumers, had been persistently low following the global financial crisis in 2008. This year however, due to the economic resurgence brought about by the reduction in many Covid restrictions, prices have been trending upwards and the index clocked in at +5% for the year ended May 2021, the largest 12-month increase since 2008. Contributors to this surge in prices have been the very things that bridged the gap through the lockdowns 12 months ago: accommodative monetary and fiscal policy, and a gradual unwind of the social restrictions put in place to limit the spreading of the virus. The fiscal stimulus pumped into the economy (relief packages) and record low interest rates have resulted in consumers having access to more money, and – with restrictions relaxing – a greater inclination to spend it. Add in some supply side constraints (raw material shortages, shipping delays etc) and prices for many goods have been squeezed higher.

In the short term, central banks have sought to stimulate an economy wounded by Covid, but in the long term the management of inflation risks will increasingly be their focus. With inflation pressures becoming more evident, the central banks will be reviewing the tools at their disposal to manage this. The fiscal support they have been offering through the crisis can be pared back and monetary policy changes can also deliver higher short term interest rates – if considered necessary – as another mechanism to dampen inflationary pressures. This is precisely what the US federal reserve signalled late in the quarter. They elected to keep their official interest rate at the current record low, but signalled an expectation to raise interest rates sooner than previously expected. This was a clear signal to the market of their likely intolerance of allowing sustained levels of inflation above their long term target level.

This announcement caused shorter term yields to spike – the US 2-year yield rose to 0.25% from 0.16% where it has stubbornly been sitting since the crisis began. The longer term US 10-year yield actually declined from 1.74% to 1.47% as the notion that above target inflation in the future might be tolerated was quashed in the Federal Reserve's June update. The UK and Australia followed a broadly similar path to that of the US and both had relatively stable quarters, as did Japan.

After bucking the trend in the March quarter, European yields picked up through April and May in particular. The German 10-year bond yield increased 0.09%, the French by 0.18% and the Italian by 0.16%

Broadly, this meant longer duration bonds outperformed shorter duration bonds. Credit spreads narrowed and are now on average tighter than pre-Covid levels, helping corporate bonds outperform government bonds.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) made +0.1% for the quarter and the same return over 12 months. The broader Bloomberg Barclays Global Aggregate Bond Index (hedged to NZD) returned +1.0% for the quarter, but is flat over the 12 months to end June.

Source: FTSE World Government Bond Index 1-5 Years (hedged to NZD)

+0.3%

New Zealand fixed interest

With an eye to their dual mandate of stable 2% inflation and maximum sustainable employment, the Reserve Bank of New Zealand (RBNZ) again elected to leave the official cash rate at 0.25%. With inflation nearing the mid-point of the target 1% - 3% range, and the unemployment rate having pulled back to 4.7% (very near to pre-lockdown levels), it is easy to conclude the existing policy settings are fulfilling those objectives. In its most recent announcements, the bank has signalled an expectation of hikes in the Official Cash Rate (OCR) commencing as soon as this year, and continuing through to a level of around 2% in 2024, and the market is broadly in consensus with these projections.

With no real catalyst - endogenous or exogenous - yields in New Zealand were relatively unchanged through the quarter. The NZ 10-year yield closing the quarter at 1.80%, 0.04% below its starting point which meant very small gains for this investment sector this quarter.

Government bonds underperformed corporate bonds, while longer maturity bonds outperformed shorter maturity bonds, but generally all parts of this investment sector posted negligible returns through the quarter.

The S&P/NZX A-Grade Corporate Bond Index rose +0.3% for the quarter and is the only investment sector with a negative 12-month return at -1.2%. Longer term performance remains robust, with both the 3- and 5-year annualised average returns coming in at +3.7% and the 10-year return is +4.9% per annum.

The longer duration, but higher quality S&P/NZX NZ Government Bond Index rose +0.2% for the quarter and has retreated -3.6% over the preceding 12 months.

Source: S&P/NZX A-Grade Corporate Bond Index

Table 1: Investment sector returns to 30 June 2021

Investment sector	Index Name	3 months	1 year	3 years	5 years	10 years
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	+0.9%	+11.2%	+13.2%	+14.0%	+15.2%
Australian shares	S&P/ASX 200 Index (total return)	+6.8%	+28.2%	+8.9%	+11.8%	+7.2%
International shares	MSCI World ex Australia Index (net div., hedged to NZD)	+7.6%	+36.2%	+13.8%	+14.9%	+12.8%
	MSCI World ex Australia Index (net div.)	+7.7%	+28.3%	+13.9%	+15.4%	+12.7%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	+5.0%	+30.5%	+10.5%	+13.9%	+6.4%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	+0.3%	-1.2%	+3.7%	+3.7%	+4.9%
International fixed interest	FTSE World Government Bond Index 1-5 Years (hedged to NZD)	+0.1%	+0.1%	+2.5%	+2.1%	+3.4%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	+0.1%	+0.3%	+1.0%	+1.4%	+2.1%

Unless otherwise specified, all returns are expressed in NZD. We assume Australian shares and emerging market shares are invested on an unhedged basis, and therefore, returns from these investment sectors are susceptible to movement in the value of the NZD. Index returns are before all costs and tax. Returns are annualised for time periods greater than one year.

Online trading? Check your overconfidence at the door

A question we've been asked quite a few times within the last year goes something like this, "So my son is investing on Sharesies. What do you think of them...?"

It's a great question and one we thought deserved an article of its own.

Sharesies, Hatch and other digital trading platforms easily accessible by smartphones have grown enormously popular in recent years. Sharesies claims to have 350,000 users which would be about 7% of the population of New Zealand. That's a remarkable achievement.

There are a number of positive aspects to these digital trading platforms. Easy to access and requiring only a small amount of cash to begin investing, they appeal to younger investors, and we now see New Zealanders investing (and saving) at a younger age. The result will hopefully be an increase in financial literacy born out of experience.

However, it's a more nuanced question as to whether or not these platforms are leading to successful investing outcomes. Successful compared to what? Compared to term deposits? Compared to the average return of the market? The answer depends on the basis of the comparison. Unfortunately, we don't have data available from these New Zealand platforms so it's hard to evaluate the average performance of their investors.

While online trading platforms have only recently gained popularity in New Zealand, they have been around internationally since the 1990s. In the United States, Ameritrade, E-trade, Scottrade and more recently Robinhood, are all examples of online trading platforms. Having access to this longer-term international data lets us assess performance by looking at the evidence.

The academic peer-reviewed evidence shows a fairly consistent pattern. Those who trade online, and especially those who trade frequently, typically do worse than the market return.

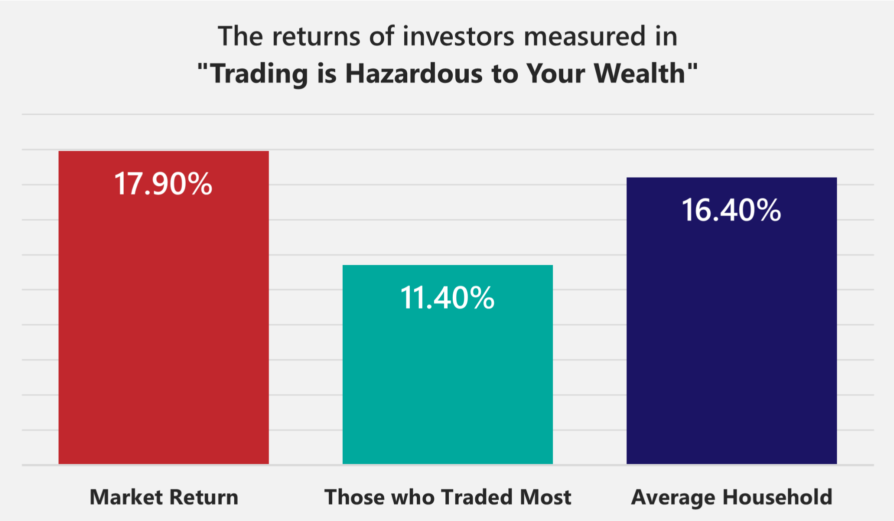
One of the first studies of online trading platforms was conducted in 2000 by Dr Brad Barber (University of California, Davis) and Dr Terrance Odean (University of California, Berkeley), titled "Online Investors: Do the Slow Die First?"[1]

> Easy to access and requiring only a small amount of cash to begin investing, they appeal to younger investors, and we now see New Zealanders investing (and saving) at a younger age.

Their general conclusion was that investors who switched to trading online traded "more actively, more speculatively, and less profitably than before – lagging the market by more than 3% annually."

That raises the question; if investors are less successful, why do they do it? The authors say their findings can be explained by, "overconfidence, augmented by self-attribution bias, the illusion of knowledge, and the illusion of control." In other words, investors do worse because they give themselves too much credit when they are just fortunate with their picks, and they have a strong self-belief whether or not they actually have stock picking ability. Lastly, they feel like they have more control over investing outcomes than they really do.

[1] *Barber, Brad M. and Odean, Terrance, Online Investors: Do the Slow Die First? (December 1999). EFA 0335, Available at SSRN: https://ssrn.com/abstract=219242 or http://dx.doi.org/10.2139/ssrn.219242*



Sources: 66,465 households with accounts at a large discount broker during 1991 to 1996, Barber, Brad M. and Odean, Terrance, Trading is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors. Available at SSRN: https://ssrn.com/abstract=219228 or http://dx.doi.org/10.2139/ssrn.219228

After the adoption of trading by smartphone, investors are also more likely to purchase risky and lottery-type assets and to chase hot investments on their non-smartphone trading platforms as well.

This result isn't surprising. In 2002 the same authors published an article in the Journal of Finance called "Trading is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors."[2]

In this study they discovered that of 66,465 households that had an account with a discount share trading platform, the ones that traded shares most frequently underperformed the market by 6.5% per annum (i.e. an average high-trading return of 11.4% compared to a market return of 17.9%). The average household with a trading account underperformed by 1.5% (i.e. an average household return of 16.4% compared to a market return of 17.9%).

Perhaps more relevant is a recent European study on the impact of technology on individual investors. In February 2021, Drs Ankit Kalda, Benjamin Loos, Alessandro Previtero and Andreas Hackethal, published "Smart(Phone) Investing? A within Investor-Time Analysis of New Technologies and Trading Behavior."[3]

The authors looked at the period from 2010 to 2017 and the results of two European banks that introduced online trading via mobile devices.

Below is a summary of a some of their key findings:

- Smartphone users were about 8 years younger and 13% more likely to be males compared to nonusers.
- Smartphones increased the purchasing of riskier and lottery-type assets and the chasing of past returns by 67%.
- Smartphone trades involved assets with higher volatility.
- Smartphones increased the probability by 71% of buying assets in the top decile of the past performance distribution.
- Smartphone investors chased performance evidenced by the fact that 68% of purchases involved assets that had earned above median returns in the recent past.

After the adoption of trading by smartphone, investors are also more likely to purchase risky and lottery-type assets and to chase hot investments on their non-smartphone trading platforms as well.

Perhaps this academic speak can be better understood in light of a recent headline grabbing story "GameStop stock price crashes as Robinhood app restricts trading."[4]

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[2] *Barber, Brad M. and Odean, Terrance, Trading is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors. Available at SSRN: https://ssrn.com/abstract=219228 or http://dx.doi.org/10.2139/ssrn.219228*

[3] *Kalda, Ankit and Loos, Benjamin and Previtero, Alessandro and Hackethal, Andreas, Smart(Phone) Investing? A within Investor-Time Analysis of New Technologies and Trading Behavior (January 13, 2021). SAFE Working Paper No. 303, Available at SSRN: https://ssrn.com/abstract=3765652 or http://dx.doi.org/10.2139/ssrn.3765652*

[4] *https://www.abc.net.au/news/2021-01-29/gamestop-stock-price-crash-as-robinhood-restricts-buying-shares/13101670*

“ONLINE INVESTORS: DO THE SLOW DIE FIRST?"

Takeaway: Online investors traded more actively, more speculatively, and less profitably than before – lagging the market by more than three percent annually.

“TRADING IS HAZARDOUS TO YOUR WEALTH"

Takeaway: Investors that traded shares most frequently underperformed the market by 6.5% per annum. The overall household with a trading account underperformed by 1.5%.

“SMART(PHONE) INVESTING?"

Takeaway: Smartphones increase by 67% the purchasing of riskier and lottery-type assets and by 71% the chasing of past returns by buying assets in the top decile of the past performance distribution.

> The idea that individual investors may be more inclined to buy a share after its price has gone up is behaviourally intuitive, but it’s not a particularly profitable strategy, at least according to most long-term measures.

Novice investors using the trading app/platform Robinhood bid up the value of a video game store called GameStop. The decision to invest in that business was not based on any careful evaluation of the business’s future prospects. Many investors piled in based on speculation alone. When it crashed some of those investors lost money.

This experience highlights a broader trend the authors of the Smart(Phone) Investing article bring to light. While smartphones offer convenience, that convenience sometimes comes with a cost of increased risk and reduced returns from lottery-like stocks which have historically produced worse than average subsequent returns.

The infographic above provides a snapshot of the three academic articles. These results are not particularly surprising. While in many ways Sharesies provides easier access to investing, we know from years of experience that investing isn’t easy. What feels intuitive is often misguided and can lead to poor long-term outcomes. The idea that individual investors may be more inclined to buy a share after its price has gone up is behaviourally intuitive, but it’s not a particularly profitable strategy, at least according to most long-term measures.

It’s no accident that advertisements for online trading platforms generally show the brands of some of the world’s most successful technology companies with good recent performance. But what young investors don’t realise is that those investments are also some of world’s most expensive companies based on earnings and prices. That doesn’t make them a bad investment. But a concentrated investment in those companies is far riskier than the ‘investing is easy’ advertising would lead you to believe.

In summary, if you have kids using online trading platforms in a casual way with small amounts invested, we believe this can result in many positive outcomes. It will increase their comfort with investing and likely lead to an increase in financial literacy. However, it may also lead to overconfidence, and the weight of evidence suggests you (and they) should expect outcomes lower than the market average.

When it comes to smart investing, the same principals always apply, regardless of age. If your kids are investing large amounts of assets they can’t afford to lose, they should probably seek a second opinion.