Retail investment and attitudes to risk

With savings accounts being eroded by high inflation, **Emma Burdett** highlights the biggest missed opportunity for investors and the role of IR in driving change.

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How many of you have had conversations with teenagers or young adults in recent months about finding savings accounts that actually pay a decent rate of interest? A novel concept for many of that generation who have only lived through an era of phenomenally low rates and no interest on cash accounts that made a difference! But how many of you have pursued that conversation to point out that nice as 4.5% interest may sound, with inflation still running at 6.7%, the underlying value of those savings are being steadily eroded?

And although recent equity performance has certainly been limited in the short-term, look back over the last 5, 10, 30 years and long-term equity investment outstrips cash returns by a substantial margin. Yet the FCA figures show that there are 9.7m people with investable assets of over £10,000 in the UK, held mostly or entirely in cash and in addition the total holdings of cash ISAs in the UK comes to nearly £300bn. This may be partially inertia, with the default on many investment platforms seeming to be to a cash ISA, but it is also an overemphasis on the risk of equity investment that means many consumers lack the confidence to invest. This is the crux of the problem the recent research paper by the Centre for Policy Studies, *Retail Therapy*[1], has sought to shed light on.

There are plenty of statistics telling us how the proportion of UK shares held by UK residents has fallen substantially over the last 60 years, from over 50% in the 1960's to 12% in 2022. Not least of course, because so many alternative means of investing (funds etc) and different geographies have become accessible. Although as the CPS points out, many more people now have an indirect interest in equities and bonds via their pension funds, it is the direct share ownership dilemma that is where they perceive the UK is 'falling woefully short'. And that would appear to be versus Europe, the US and developing countries, with the result being a missed opportunity both for UK investors to outpace inflation and for UK corporates to access financing.

This dilemma has been highlighted by multiple reports and reviews of late – including Lord Hill's *UK Listing Review*; Mark Austin's *Secondary Capital Raising Review*; Jeremy Hunt's *Edinburgh Reforms,* all of which are gradually pushing the pendulum more in retail investors favour. But there continues to be an inequality in information available to retail investors which has undoubtedly been a block. Developments such as company sponsored research being distributed widely, technological progress allowing much cheaper connectivity between corporates and retail investors, together with innovative digital investment apps are all beginning to make a difference.

Access to information allows individuals to assess risk

Regulation and technology can facilitate change and lower barriers to entry, but making investment more inclusive for all is arguably the only way to really drive change in attitudes to risk and awareness of potential wealth creation opportunities. For a whole generation of young people who (understandably) now consider home ownership a pipe dream, share ownership could be their route to long-term wealth creation.

Taking the risk element first, it is anomalous that investing a few thousand pounds in a portfolio of five or six direct shareholdings seems to be considered by policymakers to be riskier than taking out a 75% mortgage on a one bedroomed flat. After a few high-profile financial mis-selling scandals, the default seems to have become that retail investors need protection at all costs. This is also a factor behind the limited opportunities for retail investors to access investments in private equity, venture capital or the private capital markets in general. That low level of risk tolerance and emphasis on risk avoidance might limit the downside, but also means much of the potential upside is negated. In everyday life, individuals make constant assessments of risk, evaluated by access to information.

> **"Investing in shares as a genuine wealth creation exercise has not been a focus. It can be and should be and it should start early"**

Choosing which retailer to purchase from online is certainly not without risk, but the majority of consumers are nowadays comfortable to make that assessment, either from brand knowledge, reviews or referrals but also because shopping in this way has become widely acceptable. But investing in shares as a genuine wealth creation exercise has not been a focus. It can be and should be and it should start early. Financial education in schools is an essential part of that.

It is a natural human instinct to prioritise the negative, but a willingness on the part of regulators, government, companies and inevitably the media, to consistently provide clear and comprehensive information, so individuals can accept the levels of personal risk, can and will make a huge difference. And consistently providing good information to all investors not just institutional, is the way corporates and IRO's can significantly contribute to this ambition.

The role of IR

For an IRO today willing to organise their communications on a broader basis than purely institutional investors, they will benefit from the liquidity and reputation gain that retail investors can bring. The costs of engagement have fallen dramatically thanks to technology, and as AI progresses, so will much of the time previously involved in engagement (and that includes some of the basics for information provision to institutional investors as well!). Direct retail investment also gives individuals the chance to vote and to shape the development of the companies they are investing in – something investor relations directors increasingly recognise simply reflects the same pressure they are seeing from institutional asset owners. But from the individual investor perspective, this stake in society and the economy is substantially more tangible from a direct investment than a distant pension fund. The opportunity is there for investor relations once again to lead the way forwards and help to reform retail investment. ■

1. *Retail Therapy – The Centre for Policy Studies*
cps.org.uk