How commission-free trading is shaking up the world of investment

The investment industry has experienced a significant shift in recent years, with the online retail brokerage platforms transforming the ways in which people invest their money.

Today, investors can trade with considerably less capital than previously required, while many of these platforms also allow you to invest without charging the fees for commission or value-added services that investment banks and institutional brokers required investors to pay in the confines of the traditional brokerage model.

Once limited to affluent individuals and institutional investors, the arrival of these platforms onto the investment scene has enabled much greater accessibility within the industry, removing the barriers to investing and encouraging an influx of new investors to begin trading.

A new wave of investors

This new wave of investors, known as retail investors, can be defined as nonprofessional traders who use their own money to buy, sell and manage securities on online retail brokerage platforms – their rise has been nothing short of remarkable.

In 2010, for instance, it was estimated that retail investors accounted for just *10%* of the world's daily equity share volumes; by January 2021, this figure had more than doubled to *23%*. As a result, the *World Economic Forum* now contends that retail investors currently oversee more than 50% of global assets and will hold 61% by 2030. Clearly, with so many assets within their management, retail investors are now fundamental players in the world of investment.

In recent years, these investors have shown that they now have the ability to move individual stocks considerably, often at the expense of traditional investment institutions and hedge funds. During the GameStop short squeeze for instance, hedge funds and institutional investors who had shorted shares in the video game company lost significant amounts of money when retail investors orchestrated a buying campaign that the share price from $19.94 on the 11th of January to $347.51 a share on the 27th of January.

The incident showed that retail investors now wield significant power when it comes to individual stocks, but it also revealed that they were able to spot a market trend and exploit it – a development that can be attributed to the fact that the new retail investor belongs to a financially literate and digitally active generation of traders.

Indeed, many online retail brokers offer educational materials, blogs, informational videos, research reports and analysis allowing investors to understand how the markets move and what causes certain trends. Combined with this knowledge, the digital nature of these platforms allows investors to move quickly, guiding them to capitalise on the opportunities and manage their investments in real time. This has played a major role in the rise of retail investors and has been especially transformative for investing in assets like stocks.

The emergence of commission-free platforms

One of the first of these platforms – Robinhood – was launched in March 2015, and allowed investors to trade stocks and exchange-traded funds (ETF)s without minimum account deposits or the need to pay fees for commission. This broke down a key barrier for nonprofessional investors, because it made investing smaller amounts of capital much more viable. By 2020, the platform had seen more than *6 million* investors make an account, with this figure rising to an astonishing *22.8 million* just two years later.

Since its meteoric rise, many other platforms have launched commission-free trading. As a result, investors now have a myriad of options when it comes to choosing an investment platform, as well as a great deal of flexibility when it comes to the securities that are available to them to trade.

However, as with most platforms that are predominantly based online, it's important to check that the platform that they are signing up to provides them with the security they need to invest with confidence. For instance, at HYCM, we will soon be adding the possibility to buy fractional shares in stocks with zero commission in a secure environment.

The knock-on effect on stock trading

Many analysts suggest that the recovery of global stock markets after the pandemic can be attributed to retail investors. This coincides with the rise of commission-free trading which opened the gate to stock trading.

For instance, following the market crash in March 2020, retail investors accounted for approximately *20%* of the trading volume in the FTSE All Share Index, with *60%* of those trades being buy orders. Despite the stock markets taking a hit, retail investors persisted in supporting their stock market assets, indicating their inclination towards the 'buy the dip' approach.

This aligns with the well-established notion that retail investors adopt a non-fundamental approach to investing, whereby they tend to prioritise the performance of individual stocks over broader sectoral trends or global economic analysis.

Similarly, it appears that retail investors have a preference for the speculative nature of trading individual stocks, as opposed to investing in indices. *BIS* research reveals that turnover for S&P 500 ETFs remained stagnant over the four-year period leading up to 2021, while turnover for individual stocks consistently increased during the same period.

Lastly, stock trading is increasingly influenced by news events, social media announcements, and even the actions of celebrities. A case in point is the impact of Elon Musk's takeover of Twitter on *Tesla stocks (NASDAQ: TSLA)*, which triggered a bear market due to concerns over his divided attention between the two businesses. Moreover, according to *BIS*, a company's valuation surged fivefold after retail investors misinterpreted a social media post as an endorsement of the stock. This is a trend that will be interesting to watch as trading becomes more of a mainstream in the years to come.

Final thoughts

If the last few years are anything to go by, commission-free trading and retail brokerage platforms will continue to grow in influence over the next couple of years. Already, they have significantly altered the ways in which people can invest, and the wave of retail investors that their emergence has allowed to begin trading has certainly disrupted the traditional investment world. It should be noted that the lock down impact of Covid-19 meant that many people were confined to their homes with time on their hands. Will those same investing trends now continue post covid?

Furthermore, for any new investors thinking about opening an account, it's important that they're aware of the risks that investing can entail and choose a platform provider that will give them the confidence that they need to start their investment journeys.

Stavros Lambouris is CEO at *HYCM* International.

High-Risk Investment Warning: CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 71% of retail investor accounts lose money when trading CFDs with this provider. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money. For more information, please refer to HYCM's Risk Disclosure.

This material is considered a marketing communication and should not be construed as containing investment advice or an investment recommendation, or an offer of or solicitation for any transactions in financial instruments. Past performance is not a guarantee of or prediction of future performance. HYCM does not take into account your personal investment objectives or financial situation. HYCM makes no representation and assumes no liability as to the accuracy or completeness of the information provided, nor any loss arising from any investment based on a recommendation, forecast, or other information supplied by an employee of HYCM, a third party, or otherwise.

Certain products & services mentioned herein may or may not be available to all clients depending on which HYCM Capital Markets Group entity their trading account(s) adheres to.

Article by STAVROS LAMBOURIS