THE TIKTOK GENERATION ARE BECOMING "RENEGADE" INVESTORS

HOW GEN Z'S INVESTING HABITS DIFFER FROM PAST GENERATIONS

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Background

Hardman & Co has always been at the forefront of understanding the changing ways in which investors interact with markets and investment research, previously publishing reports such as *Research distribution and investor engagement: reaching "Generation Netflix" and the retail investor* in 2021.

This article seeks to understand the changing ways in which Gen Z interacts with investment information and financial markets. This piece was written by our intern Senan Skalkos, aged 19, who is a finance undergraduate student at University College Cork, and the youngest recipient of an award from the Chartered Institute for Securities and Investment for achieving the highest results in their Introduction to Investment exam at age 16.

Executive summary

Three main findings were discovered:

- Gen Z is exhibiting much higher levels of participation in investing at an early stage then their older peers.
- They favour different asset allocations to their peers.
- They use non-traditional sources of information.

Gen Z presents investor relations (IR) professionals and companies with a young, large and engaged investor demographic who are still in the learning phase of their investing journey and are nearing the ages when they begin to accumulate meaningful wealth. To access this demographic, companies and IR professionals will have to engage with the non-traditional avenues heavily used by Gen Z investors.

Gen Z investors' different asset allocation preferences and preferred sources of information have in the past had significant impacts on markets[1] and will continue to shape markets in the future. Other investors must monitor these sources of information, such as social media, and observe this demographic's preferences in order to more meaningfully understand market movements as Gen Z's economic influence grows.

Explanation of the different generations

Ages as of 2024.

- Gen Z born between 1997 and 2012, currently aged 12-27
- Millennials born between 1981 and 1996, currently aged 28-43
- Gen X born between 1965 and 1980, currently aged 44-59
- Baby Boomers born between 1946 and 1964, currently aged 60-78
- Silent Generation born between 1928 and 1945, currently aged 79-96

Note that different sources define generations using different years. There is no consensus as to the exact years a generation spans because generations and their zeitgeists are difficult to demarcate. For instance, someone born into Gen Z in 1997 will have more shared cultural experiences with a Millennial born in 1996 than a member of Gen Z born in 2009, causing debate around which years belong to which generations.

[1] See GameStop comment below

Gen Z

First large-scale introduction to investing

Gen Z grew up during, or in the direct aftermaths of, the 2007-08 global financial crisis and the COVID-19 pandemic. These two periods of extreme economic uncertainty played a role in shaping an event which was the first meaningful introduction to investing for many members of Gen Z.

In 2021, members of Reddit's r/wallstreetbets community pursued a significant short squeeze, which centred on retail investors boosting the price of GameStop shares as part of a social media trend. Many participants were of Gen Z age. Some saw it as an opportunity to unite during a period of global isolation. Others saw it as a chance to seek revenge of sorts for the global financial crisis by significantly raising the price of shares which were heavily shorted by large hedge funds and institutional investors.

Two major trends were observed during the event, which are still evident today:

- **Informal news sources were popular:** Social media and memes influenced many Gen Z investors more potently than traditional media sources, which tended to report that the event was a speculative bubble and advised caution.

- **Anti-establishment investing styles were widespread:** Many investors' activity was in direct opposition to financial institutions. Investment in asset classes which largely lie outside of institutional scope, such as crypto-assets, remains popular today.

Beginning to invest younger than past generations

According to CNBC[2], Gen Z have begun to invest at a significantly younger age than previous generations, starting at 19 years old, on average. Compare this with Baby Boomers and Millennials who, on average, began investing at ages 35 and 25, respectively. Additionally, according to a CFA study,[3] 22% of British Gen Z investors began investing before they were 18.

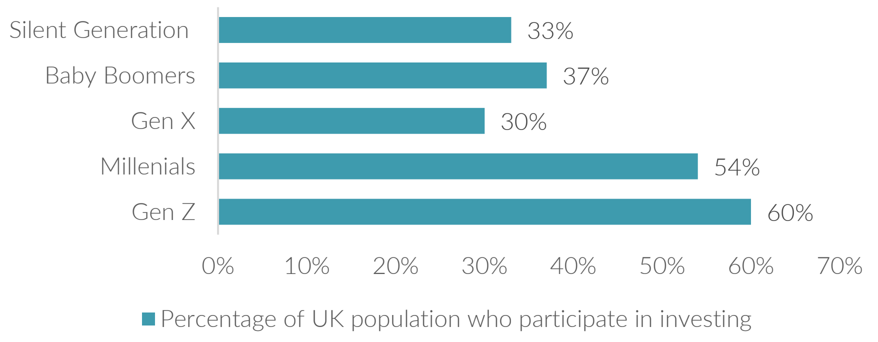
The compounding advantage that generally accompanies beginning to invest younger, could result in Gen Z having considerably larger portfolios in their old age compared with preceding generations. This gives Gen Z the potential to be very influential in financial markets as their investment returns begin to significantly compound.

[2] CNBC, *Gen Z is harnessing 'one of the magical qualities of investing,' advisor says — how it helps them build wealth*, 14/07/2024

[3] CFA Institute & FINRA Investor Education Foundation, *Gen Z and Investing: Social Media, Crypto, FOMO, and Family*, May 2023

Higher levels of participation in investing than past generations

Percentage of UK population participating in investing by generation, 2023



Source: finder.com, 24 April 2023, retrieved from Statista

Gen Z has significantly higher levels of engagement in investing than older generations. More than half of UK Gen Z invest, compared with just 30% of Gen X who are primarily the parents of Gen Z. This very pronounced difference in investing participation may cause Gen Z to significantly change the makeup of Britain's household wealth. In 2023, the median amount of money British members of Gen Z had invested was £1,367.[4]

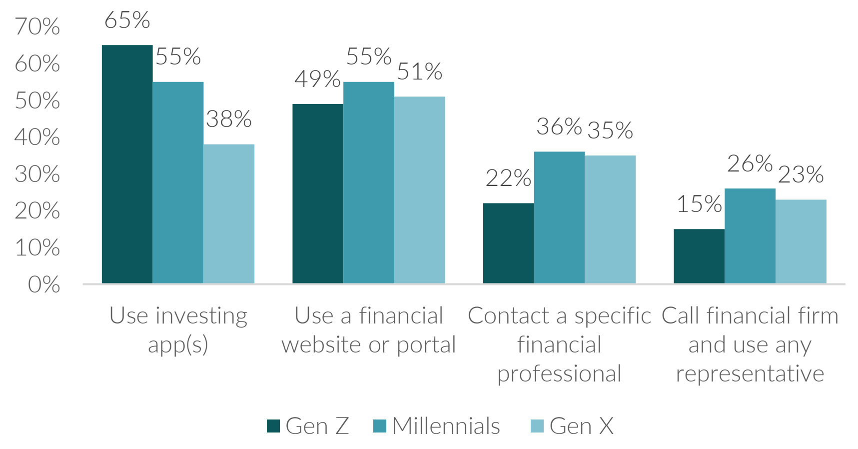
Additionally, as Gen Z age and begin to start planning for retirement, it is likely that we will see this figure grow.

[4] CFA Institute & FINRA Investor Education Foundation, *Gen Z and Investing: Social Media, Crypto, FOMO, and Family*, May 2023

Attitudes and demands

Strong preference for investing apps and ease of access to markets

Resources used for managing investments or making trades



Source: CFA Institute & FINRA Investor Education Foundation, Gen Z and Investing: Social Media, Crypto, FOMO, and Family, May 2023

According to the above study, investing apps are the most popular resource for managing investments. In the same study[5], 56% of British Gen Z investors cited the ability to start investing with small amounts of money as a top factor motivating them to begin investing. Additionally, 46% highlighted the ease of opening a brokerage account as a key motivator in their decision to start investing. Investing apps such as Trading212 offer convenient means of investing and only require a minimum deposit of £1.

A major feature of many of the popular investing apps is the ability to buy and sell fractional shares. This allows users to access financial markets with greater levels of ease. For instance, on 12 August 2024, Microsoft opened at ~$407. For an 18-year-old student, needing to save at least $407 (~£318) to invest in a popular company can make investing seem out of reach. However, being able to invest with a minimum transaction of £1 makes investing in shares and ETFs accessible to virtually anyone.

Fractional shares allow not only Gen Z but the generations that follow them to invest earlier with sums of money which are more easily obtainable at a young age. This is likely to cement apps as the dominant investing resource for Gen Z for the foreseeable future, particularly those who are too young to begin investing (ages 12-17) but are likely to begin in the coming years.

This has significant implications for listed companies/funds and investment professionals. For listed companies/funds who wish to receive investment from this demographic, it is imperative to ensure that your company is tradable on popular apps. The criteria for being tradable may vary from app to app. Most platforms do not make their specific criteria public; however, high levels of liquidity, consumer

[5] CFA Institute & FINRA Investor Education Foundation, *Gen Z and Investing: Social Media, Crypto, FOMO, and Family*, May 2023

demand and being listed on a prominent market like the London Stock Exchange are likely to make companies more appealing to investing apps.

For investment professionals, increased access to markets with lower barriers to entry – commonly referred to as the democratisation of markets – can make markets both more efficient and inefficient. In positive cases, more involvement from the young retail community who engage in fractional investing can help to lower discounts on shares with high market prices without the need for a stock split, creating a more efficient market.

Inversely, sometimes increased access to markets can exacerbate pricing inefficiencies during times of high volatility and market euphoria. For example, the COVID-19 pandemic period saw young retail investors invest heavily in assets such as GameStop shares and Dogecoin to follow trends on Reddit and TikTok. Many seasoned investors believed that this disrupted market efficiency, creating dangerous speculative bubbles. This potential mispricing risk must be continuously monitored by investors to reduce exposure to unwanted and extreme volatility.

A high-risk appetite, forgetting old rules and crypto-mania

Various studies reveal that Gen Z investors are comfortable taking on more risk than other generations. Reasons for this are numerous. Some Gen Z investors believe that more risk is needed to meet their financial goals as many young people believe that they face a more difficult economic environment than past generations did at their age due to high levels of student loan debt and higher housing prices. Others may take on more risk due to "FOMO" ("fear of missing out") around financial opportunities. Emotional investing can lead to more risk being taken on. According to the CFA Institute[6], 43% of Gen Z investors in the UK cited FOMO as a motivation to begin investing.

Gen Z investors in the UK also exhibit a strong interest in cryptocurrency. It is the most popular asset class for young British investors, with 50%[6] investing in cryptocurrency. This is distantly followed by the second most likely investment for the UK's Gen Z investors, which is individual company stock. 26%[6] of young British investors have invested in this asset class. This contrasts with the aversion to crypto more experienced investors often exhibit.

Where wealthy US investors believe the greatest opportunities lie, by age

Ages 21-43 Type of investment	%	Ages 44+ Type of investment	%
Real estate investments	31%	**US equities**	**41%**
Crypto/digital assets	28%	Real estate investments	32%
Private equity	26%	**Emerging market equities**	**25%**
Personal company/brand	24%	**Non-US equities**	**18%**
Direct investment into companies	22%	Private equity	15%
Companies focused on positive impact	21%	Direct investment into companies	15%
Fixed income	**17%**	Companies focused on positive impact	12%
Emerging market equities	**16%**	**Fixed income**	**12%**
US equities	**14%**	Tangible assets	7%
Non-US equities	**14%**	Personal company/brand	6%
Tangible assets	13%	Crypto/digital assets	4%
Private debt	11%	Private debt	4%

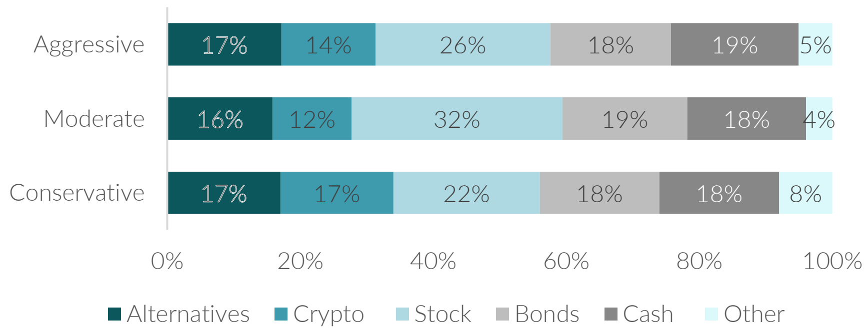
Source: Bank of America Private Bank, 2024 Bank of America Private Bank Study of Wealthy Americans, 2024

[6] CFA Institute & FINRA Investor Education Foundation, *Gen Z and Investing: Social Media, Crypto, FOMO, and Family*, May 2023

As we can see from the table above there are major differences in the types of investments favoured by younger versus more experienced investors. Apart from real estate investments (which are heavily favoured by younger investors), risky investments such as crypto, private equity, personal companies or brands[7] and direct investments into companies all rank above traditional investments such as shares and fixed income.

More experienced investors' preferences are, in some ways, an inverted version of younger investors. Experienced investors heavily favour equities and rank investments such as crypto and personal companies near the bottom on their list.

Portfolio allocation by self-identified risk level, ages 21-43



Source: Bank of America Private Bank, 2024 Bank of America Private Bank Study of Wealthy Americans, 2024

We see the above preferences replicated in the way younger investors allocate their portfolios. It may surprise readers that lower self-identified risk levels hold higher levels of crypto; young investors who self-identify as conservative tend to allocate 40% of their portfolio to traditional stocks and bonds and a massive 34% to crypto and alternatives. This is a major contrast to investors over the age of 44 who self-identify as conservative. According to the same Bank of America[8] study, this older demographic allocates 67% to stock and bonds, 5% to alternatives and a negligible portion to crypto.

This preference for crypto assets may be due to a variety of factors:

- As previously mentioned, Gen Z has a higher risk tolerance, which may be due to factors such as FOMO and negative feelings about the economic conditions they face. Crypto investments are highly volatile and generally carry higher levels of risk than stocks and bonds, making them attractive to investors who are searching for higher risk assets.

- Crypto's lack of regulation can make it more attractive than traditional investments. Though most reputable crypto exchanges – such as Coinbase – require identity verification to buy and sell cryptocurrency on their platform, there are decentralised exchanges which allow users to buy and trade cryptocurrency anonymously with no identity checks. This more casual buying experience may attract some young investors.

- The anti-establishment nature of crypto may appeal to many Gen Z investors. Many cryptocurrencies are decentralised and out of reach of government and

[7] Investing in a personal company/brand is a broad concept. It can include activities such as using resources to positively influence an individual's public perception and elevate their credibility, or investing in a personal entrepreneurial endeavour. For example, social media influencers often invest in elevating their personal image to unlock business opportunities.

[8] Bank of America Private Bank, 2024 Bank of America Private Bank Study of Wealthy Americans, 2024

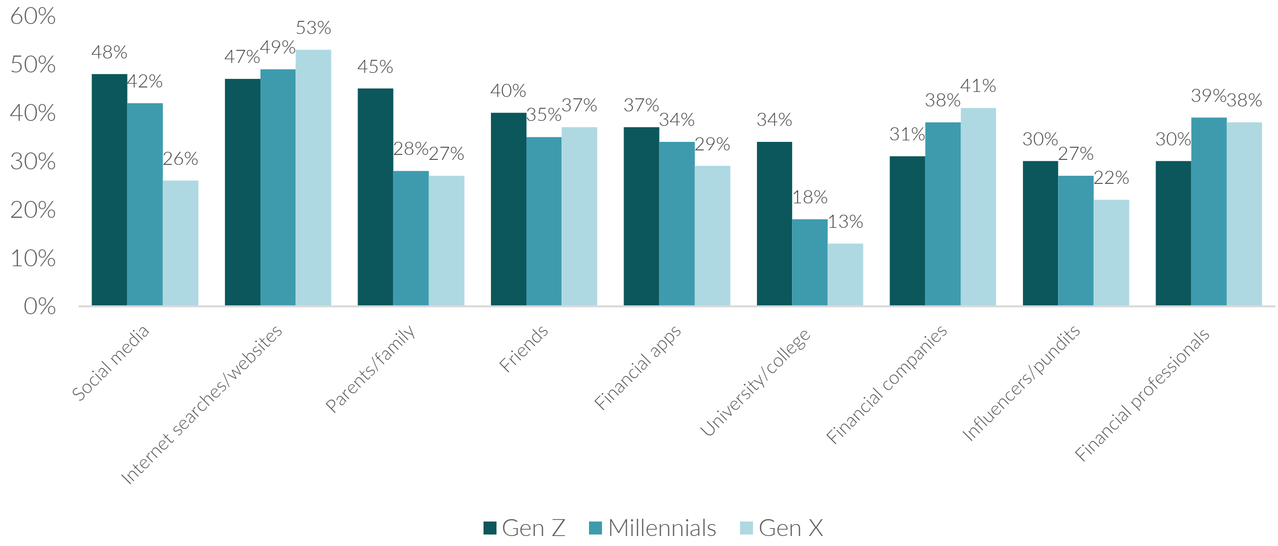
central bank control. Bitcoin, the original cryptocurrency, is seen by many as a form of protest against central bank bailouts during the financial crisis. This mirrors the previously mentioned sentiments that drove many to participate in the GameStop short squeeze.

- Some observers believe Gen Z's preference for crypto investments is a fad and merely a reflection of their youth. Many seasoned investment professionals have been deeply critical of crypto assets' legitimacy as investments. Though this sceptical view is still widely held, its popularity is beginning to wane. Recently in an *interview with CNBC*[9] BlackRock CEO Larry Fink expressed that he believes that there is a role for Bitcoin in portfolios. It is important to note that he mentioned Bitcoin specifically and not all crypto as an asset class. The debate surrounding crypto's longevity and future remains contested. However, if the sceptics are right, Gen Z's interest in crypto may disappear as they age.

Social media – the rise of "FinTok"

Short-form content and social media trends have been the driving force of modern youth culture. This influence has expanded into the world of financial advice with the rise of "FinTok" or "financial TikTok", a social media subculture which focuses on investing and finance related content.

Top sources of information used to learn about investing and finance topics



Source: CFA Institute & FINRA Investor Education Foundation, Gen Z and Investing: Social Media, Crypto, FOMO, and Family, May 2023

Gen Z investors are almost twice as likely as Gen X to use social media as a means of learning about investing topics. Videos such as *this one from Bloomberg*[10] have become a mainstream way for young people to learn about financial markets. This type of content has become preferred by many Gen Z members over traditional sources of information such as financial companies and financial professionals, that are more commonly used by more experienced investors.

Many members of Gen Z prefer the more personal nature of social media posts which come directly from content creators, in contrast to media from large corporations. This has been a trend in all elements of society from the rise of

[9] CNBC, *BlackRock CEO Larry Fink: I believe bitcoin is a legit financial instrument*, 15/07/2024
[10] Bloomberg Television, *Everyone Got the Markets Wrong This Year: Opinion's Scanlon*, 20/12/2022

influencer marketing for clothing and beauty products to political influencers who have risen in popularity in the US. It is no surprise that this form of media has spread to finance and investing information.

What factors drive this stronger engagement with social media content compared with traditional sources?

- Gen Z are almost always online. The Los Angeles Times[11] revealed Gen Z spends on average 7.2 hours per day watching videos; 41% of this is in the "short" (typical news clip) or "super-short" (TikTok video) length category. With Gen Z engaging so heavily with short-form content – which is primarily found on social media – social media has naturally become a widely used source of investing information.

- The aforementioned strong demand for convenience plays a significant role in social media's dominance. Content tends to find Gen Z through social media algorithms as opposed to young investors actively searching for it. Social media's low-effort nature, combined with a desire for convenience, makes Gen Z responsive to financial content appearing on social media feeds.

- According to the CFA Institute[12], many young investors turn to TikTok (38%), Instagram (44%) and YouTube (60%) where media can be less formal. Often, an influencer's personality can be as important as their content. As more Gen Z consumers show a preference for personalised content, social media influencers are being engaged with more than corporate PR channels by some consumers as a source of information. This is in line with other business trends outside of the investing industry, where influencer marketing has become a popular way to reach younger audiences compared to less personalised, traditional advertisements.

These drivers of social media engagement can be positive for IR professionals and companies but they also present new challenges. Establishing a social media presence can grant IR professionals and companies access to a large and active investor demographic.

However, social media is very competitive, with more content being uploaded to major platforms every day than many people can watch in their lifetimes; content creators must compete fervently to win engagement. Standing out and being favoured by social media algorithms can be challenging and require meaningful time commitments and investments in human capital to produce high quality content.

Social media also comes with caveats, which are recognised by young investors. The CFA Institute[12] revealed that only 12% of Gen Z investors would put social media in their top three most trusted sources for financial information, compared with 27% trusting parents and families and 24% trusting financial professionals. Social media is third from the bottom of the list of 11 sources of financial information Gen Z trusts the most, only above podcasts or blogs and school education. Such lack of trust may be warranted. CNBC[13] reported that only 20% of finance influencer content that included investment recommendations contained any form of disclosure. Recommendations from financial professionals typically include disclosures of conflicts of interest or financial incentives; this is not happening on social media.

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[11] Los Angeles Times, *Gen Z spends half its waking hours on screen time. Here's the good and bad news for Hollywood*, 12/04/2022

[12] CFA Institute & FINRA Investor Education Foundation, *Gen Z and Investing: Social Media, Crypto, FOMO, and Family*, May 2023

[13] CNBC, *From loud budgeting to girl math, here's what you should know before taking financial advice from TikTok*, 30/01/2024

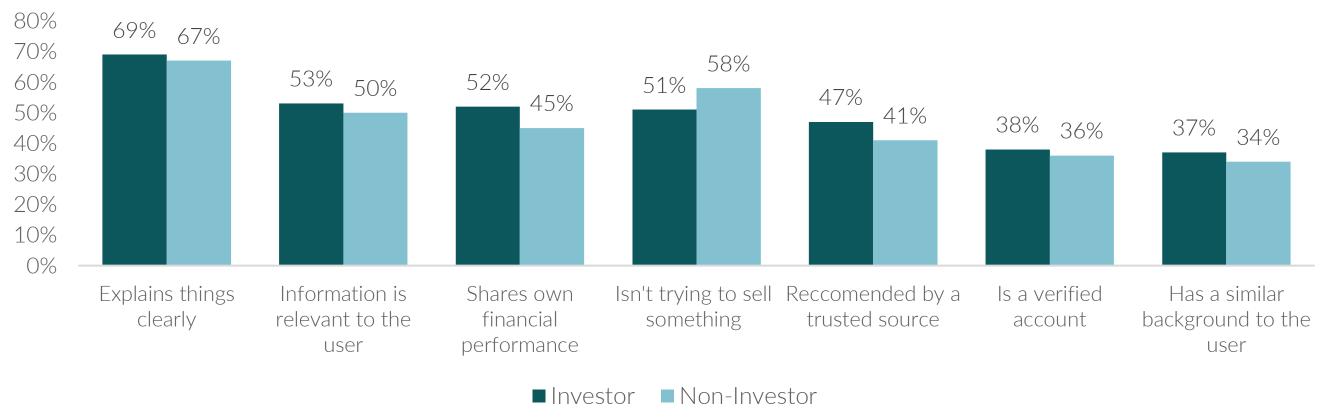
The lack of transparency and regulatory compliance, which is common in the financial content found on social media, can mislead investors, exposing them to excess risk. This issue is being recognised and addressed by regulators. In 2024 the FCA accused several reality TV personalities, who have appeared in shows such as *Love Island*, of issuing unauthorised communications of financial promotions. The charges brought against the reality TV stars allege that they were paid to promote an unauthorised investment scheme run by a third party to their millions of Instagram followers. In the *FCA's press release*[14], they described the scheme as providing advice on buying and selling contracts for difference (CFDs). In the same press release, the FCA describes CFDs: "CFDs are a high-risk investment product used to bet on the price of an asset, in this case the price of foreign currencies".

The FCA has taken a number of steps to create a more trustworthy online environment. The *FCA's guidance on financial promotions on social media*[15] clarifies its expectations for firms and others, such as influencers, when creating promotions on social media. The FCA stated that its guidelines on financial promotions are "technology neutral". All parties, including firms and influencers (even if the influencer does not have a commercial relationship with a firm) must be compliant with FCA rules when making financial promotions on social media. These rules also extend to firms working with affiliate partners, such as influencers, which should take proactive responsibility for how their affiliates communicate financial promotions.

The social media guidance is to be considered alongside Customer Duty obligations. Under Customer Duty obligations, financial promotions on social media must support retail customers' understanding and communicate information to retail customers in a way that equips them to make effective decisions.

Due to the borderless nature of social media and the sheer amount of content posted every day, policing this developing risk to investors is very difficult. It is likely that risky investment products will be regularly marketed to consumers in improper and dangerous ways for the foreseeable future. Despite being rightly sceptical of social media as a trustworthy source of financial information, Gen Z investors are still widely using it to learn about these topics. Legitimate firms and financial professionals can use FCA-compliant social media promotions to differentiate themselves as a trustworthy source.

How Gen Z decide what and who to trust online



Source: CFA Institute & FINRA Investor Education Foundation, Gen Z and Investing: Social Media, Crypto, FOMO, and Family, May 2023

[14] Financial Conduct Authority, *'Finfluencers' charged for promoting unauthorised trading scheme*, 16/05/2024

[15] Financial Conduct Authority, *FG24/1: Finalised guidance on financial promotions on social media*, March 2024

Based on the above survey, compliance with FCA Customer Duty obligations seems to be what Gen Z investors desire on social media. Top traits which elicit trust from Gen Z on social media include explaining things clearly, sharing relevant information and sharing financial performance. All these traits can be exhibited by adhering to high standards of Customer Duty as well as honest and open disclosures about risk. In a world of opaque "get rich quick" schemes, clear and open communication can be very appealing to investors.

The UK's Gen Z investors are pessimistic – let's hope it's just the weather

Compared with their peers in the US, Canada and China, members of Gen Z in the UK are more pessimistic about their financial futures. According to a CFA Institute[16] study, only 30% of Gen Z investors and 19% of non-investors in the UK are extremely/very confident in their ability to reach their financial goals. This is compared with Gen Z investors in the US, Canada and China where 57%, 44% and 59%, respectively, were extremely/very confident in their ability to reach their financial goals.

According to the same study[16], the UK's Gen Z investors' top three financial goals are: buying a home (48%); having enough money to travel (46%); and having a source of income outside of their job (45%).

Given that Britain's Gen Z investors' top goals are generally practical, it is worrying to see such a difference in confidence levels compared with their US, Canadian and Chinese counterparts. Increased engagement from mainstream financial institutions may be needed to give confidence and guidance to the UK's young investors.

[16] CFA Institute & FINRA Investor Education Foundation, *Gen Z and Investing: Social Media, Crypto, FOMO, and Family*, May 2023

Conclusion – where to go from here?

Gen Z is the first generation to grow up with widespread internet access being a part of daily life. All aspects of growing up, from games to school education, have been heavily influenced by the internet and digital culture. Heavy engagement with social media from Gen Z is likely to shape how financial information is disseminated in the future, moving away from more traditional sources.

Adoption of this trend from traditional institutions and professionals is still in its early stages. Currently, many of the popular parties using social media to discuss financial and investing topics are individual influencers. This creates an opportunity for traditional institutions to cement themselves as early adopters of these platforms to address this young and highly engaged demographic.

Gen Z's enthusiasm for crypto and high-risk tolerance may change trends in financial markets if their preferences remain consistent as they age. With extraordinarily high levels of participation in investing and the compounding power of youth on their side, we may see Gen Z accumulate exceptionally high levels of wealth. If their current preferences remain somewhat intact, crypto-assets may become of huge importance to the financial world. Firms and financial professionals need to remain cognisant of this possibility and understand trends in this developing area; for example, the adoption of products such as Bitcoin ETFs.

Methodology

Data from a variety of sources has been used for the purposes of this analysis. The definition of "investing" may not be consistent throughout the various referenced studies. As a concept, investing can range from putting savings into a money market account to speculative derivatives trading. This must be considered when using and interpreting information from different sources.

About the author

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Senan is the youngest recipient of an award from the Chartered Institute for Securities and Investment (CISI). The award was achieved for receiving the highest mark in their *Introduction to Investment* exam in Ireland at age 16.

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