Retail risk: Investors' portfolios during the pandemic

Individual participation in financial market investment expanded significantly over the past decade, with considerable growth during the COVID-19 pandemic. The share of U.S. households with at least some stock holdings reached a record high as of 2022, according to the latest Survey of Consumer Finances, and the monthly percentage of individuals moving money from checking to brokerage accounts was three to four times higher during the pandemic than in preceding years. Consequently, a broader segment of the population has engaged in opportunities to generate additional wealth for retirement, home purchases, and savings for times of hardship, albeit while accepting market risk.

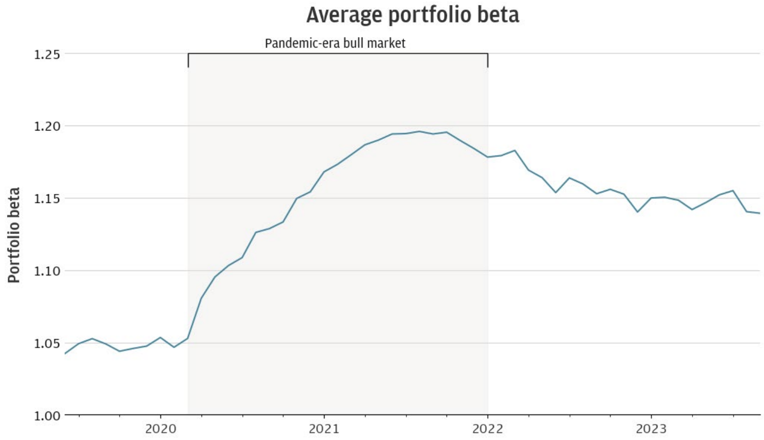
Why it matters: Our research examines portfolios in self-directed brokerage accounts using a new de-identified dataset of 500,000 investors spanning 2019 to 2023. This report provides timely data on investment risk held in retail investors' portfolios, offering a direct measure of the potentially changing connection between financial markets and household portfolios. Policymakers should consider this relationship when assessing the impact of macroeconomic policy on individuals.

Additional context: The widespread availability of online self-directed brokerage accounts provided easier access to capital markets for individuals who might otherwise be unable to invest, including those with limited liquid assets or without employer-provided retirement accounts. Given this expansion, policymakers have increasingly focused on understanding the trade-offs between encouraging more individuals to invest and the heightened financial risks, especially for inexperienced investors. Our findings highlight the importance of providing investors with educational information about investment risks.

Findings:

1. Market risk in retail investors' portfolios increased on average by 15 percent from 2019 to 2021 and remained elevated through 2023 (see Figure 1).
2. Investors who opened accounts in 2020 and 2021 held more investment risk in their portfolios compared to those who opened accounts in adjacent periods.
3. Women's portfolios held less investment risk than men's, and younger investors' portfolios held more market risk than older investors.

Figure 1



Note: The portfolio beta is calculated by multiplying the betas relative to the S&P 500 of single stock equities, ETFs, and mutual funds by their weight in each portfolio's overall holdings of risky securities for each month. We then calculate the equal-weighted average across all portfolios with a given month. A bull market is a period of increasing market returns.

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Data explanation: Figure 1 shows the average betas of equity holdings scaled by portfolio weights on the y-axis, with units in beta, from June 2019 to September 2023. We calculate scaled betas by multiplying each beta of single-stock equities, ETFs, and mutual funds by their relative weight in the portfolio's holding of risky securities each month. The average beta increases from a low of 1.04 in June 2019 to a peak of 1.20 in August 2021, then falls and stabilizes near 1.14 in 2023.

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