EUROPEAN INVESTMENT CULTURES

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European countries have been moving closer together over the decades, a relationship most notably manifested in the European Union. It is in member states' mutual interest to move beyond national boundaries and harness the potential of a community with more than 500 million people. While huge progress has been made on economic cooperation, the pace of political convergence has been slower with debates sometimes even putting the Union under serious stress. Sometimes this is due to egotism, in other cases it is the result of fundamentally different cultural histories. Acknowledging regional cultural differences is not necessarily a bad idea, but some particularities don't seem to make much sense at first sight.

To begin with a conclusion, there is no single, rational explanation for why Europeans are generally so reluctant to discuss investment topics against the background of record-low interest rates. Rates that have remained low for a significant period and that are unlikely to rise soon, if at any point in the foreseeable future.

It is also interesting to see how heterogeneous the picture is across Europe when it comes to looking at alternatives to saving for the creation of wealth. In Germany, Europe's biggest single economy, the rate of stock ownership in the total population is surprisingly low. Only about 15% of Germans own stocks; and if you take funds out of the equation, the percentage drops by more than a half. The same is true for Austria. Both are considered rich countries by GDP per capita and overall low indebtedness levels. Would it thus be fair to assume that avoiding investing in equities is a good idea? Let us look at other countries: Italy, although considered to be a bit less risk-averse overall, exhibits similarly low exposure to investing in shares. The British, on the other hand, are distinctly more comfortable in taking risks and the French are somewhere in between. The Netherlands, also regarded as a wealthy country, are the world champions in equity investing. Yet there is no obvious correlation between a country's investment activity and their welfare development. There appears to be little in the way of a pattern even within individual countries, with strong heterogeneity within any single region observed.

A reasonable inference can be drawn with a view to the respective motivation behind a specific behaviour. That is, the highest concern among those Europeans that don't buy stocks is losing money. That may sound very trivial, but the observation has more gravity when considering that these people are unwilling to change that behaviour even when they are presented with scientific evidence that staying away from investing in capital markets means missing out on considerable gains that stocks have historically offered over time.

Another remarkable phenomenon is that people who begin investing after having previously shied away from equities entirely often completely ignore basic investment rules. Consequentially, most of them lose their bets – I am using the word "bets" consciously – and turn away from investing for the rest of their lives. Lamentable stories of the fates of people who put all their savings into one company only to lose everything, are much more powerful than any computation of the opportunity cost of having stayed passive – even if applying minimum return rates.

What this teaches us is that we need more targeted information and education by government and the financial industry – not only regarding risk management and diversification but also on how to invest early in order to ready a nest egg for retirement or for other financial goals.

On the regulatory side, European policy makers have broken up monopolies and introduced measures to harmonise regulation for investment services across the EU, offering retail investors more transparency, reliability and protection. This ongoing process should be regarded as an opportunity, not a burden.

An additional initiative to be welcomed is the European Commission's action plan to boost the EU's Capital Markets Union (CMU) in order to recover from the economic burden of efforts to counter the Covid-19 pandemic. An essential part of this plan is to make sure that businesses have access to sources of funding and that European savers have the confidence to invest in their future. With a view to the somewhat undifferentiated approach to investing that I have been referring to, I particularly appreciate the CMU-related plan to introduce a requirement for member states to promote measures supporting financial education.

Indeed, periods of volatility and insecurity increase the risk that many investors will pull out their money or that potential investors will be too afraid to enter the market. Hence, the EU's measures seem expedient, if not overdue.

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