

THE FUTURE OF CAPITAL MARKETS: DEMOCRATISATION OF RETAIL INVESTING

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Over the past decades, global capital markets have undergone tremendous changes. There have been significant technological advancements as well as a radical overhaul of regulation both in terms of the universe of new requirements and their enforcement regime. Those paradigms, however, aren't the only ones that have changed at the outset of this millennium. A baby boomer generation is about to retire and enjoys the bequest of pay-as-you-go pension systems in many countries plus the financial heritage of the post-World War II generation who had saved most of their money. While the impressive global welfare development of the last 50 years is undeniable, next generations have to get used to a much higher degree of uncertainty and a much stronger need for self-determination in many aspects, including personal finance.

The Covid-19 pandemic is an often-cited incidence when it comes to explaining the significant growth of retail investing. While it certainly had an accelerating effect, it's not the sole reason for the increased participation of retail investors in capital markets. Rather, it's a development that's been in the making for some time now, with digitisation playing a key role as the enabler of the unprecedented level of access the retail investor enjoys today.

The rise of modern, user-friendly apps has made it easier than ever for individuals to get involved in trading. At the same time, retail investors' level of sophistication has increased significantly, thanks to a higher level of financial education and a much more demanding attitude. They have a much better understanding of overall market mechanisms and are seeking a broad range of trading features once reserved for professional traders. This is true also for investment products that are more sophisticated, like securitised derivatives. As an example, after 3 years from the launch of Spectrum Markets, we have witnessed retail investors better understanding how to efficiently use the securitised derivatives available on Spectrum Markets.

The emerging class of retail investors is heterogeneous, with distinct motivations, investing behaviours and financial goals: by participating in the capital markets, they can take ownership of their financial future, not only to ensure retirement and long-term financial resilience, but also to improve their socioeconomic status. Retail investors across the world have been flocking to financial markets in greater numbers over the last few decades, as the value of assets has trended upwards and the opportunity to grow wealth has been made available to a broader population. New companies are using improved technologies, innovative platforms and services, and products to widen access.

In this context, maintaining investor engagement and trust in capital markets has become more crucial than ever. The need to cater for the demands of retail investors is driving innovation and the development of investment solutions that benefit everyone. The impact of this trend – also referred to as the democratisation of investing – is no longer being ignored by the industry.

While this shift is creating a new era of financial empowerment and stability, it also presents new challenges that must be addressed. Moreover, despite all the significant progress, there are still gaps in investor protection, information reliability, personalisation, and financial literacy, that prevent retail investors from fully obtaining the benefits of the capital markets. To tap into the full potential of retail investing, the industry must build a responsible and sustainable ecosystem, leveraging technology and innovation to address these challenges and provide retail investors with the tools they need to achieve their financial goals.

To better understand the implications and solutions for a more responsible retail investing ecosystem, access, education, and trust are the critical components¹. First of all, retail investors need access to investment solutions that are outcome-oriented and easily accessible. Alternative investments, such as private products, should be made available, but with a focus on responsibility and sound financial practices. Secondly, education must be tied to financial health and investment and retirement planning, providing practical, actionable information. Companies and policymakers must approach financial education in a way that resonates with retail investors to provide a general understanding of why and how to invest. Finally, trust is paramount in the capital markets, and the industry must work together to build and maintain it by providing access to reliable information and being transparent about performance, data breaches, and fees.

In conclusion, the capital markets are undergoing a fundamental shift, one that requires the financial sector to adapt quickly and proactively. Retail investors are driving this change, and it is crucial for the industry to better serve and support these individuals by leveraging technology to help bridge the gap and provide individuals with the tools they need to achieve their financial goals.

At Spectrum Markets, we fully understand these challenges and it is fair to say that we've been pioneering in creating opportunities for investors to overcome them. As a multilateral trading facility (MTF) fully focused on retail investors' needs and being equipped with a cutting-edge technology stack, we are ready to offer transparent, liquid, and seamless trading environment. Since we believe that we're witnessing just the beginning of a long-term transformation of capital markets, we've positioned ourselves at the forefront of this development, in that we have created a fairer, more transparent, inclusive, and sustainable trading experience for everyone.

1. Report by Accenture and BNY Mellon on the retail investing market: https://www3.weforum.org/docs/WEF_Future_of_Capital_Markets_2022.pdf

**today to discuss how the seamless market access that our venue provides,
can help to grow your retail client business.**

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