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DECADE IN REVIEW: MARKET ACCESS FOR DIY INVESTORS

The stock market opened up to investors of all types and sizes in the 2010s.

By: Coryanne Hicks - November 29, 2019

In the late 2000s, E-Trade (ticker: ETFC) launched a commercial campaign starring a baby. This onesie-clad lad would place trades online, check his account on a tablet and keep up to date on the stock market via the firm's mobile app. The message was clear: Investing is so easy, even a baby can do it.

"As ads told us we could do it, our own investing confidence grew, and those who knew their way around the internet started to dabble in stock trading," says Gage Kemsley, vice president of Oxford Wealth Advisors in Rio Rancho, New Mexico.

Since 2010, technology coupled with more investment options and falling investment fees opened the stock market up to the public to a record degree. Today, anyone over the age of adulthood can manage their own investments, and they can do so largely for free.

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Low Fees Made Investing Affordable

You can follow the money to what matters most to investors. In 2018, the cheapest 20% of U.S. mutual funds and ETFs had net inflows of $605 billion compared to net outflows of $478 billion from the remaining 80% of U.S. funds, according to Morningstar. Of that $605 billion, 97% went to the 10% least expensive U.S. funds.

It's no surprise, then, that the financial services industry has been in a race to the bottom during the past decade. From falling expense ratios, which officially hit rock bottom on Fidelity's zero-expense ratio mutual funds in 2018, to no trading commissions on online stock and ETF trades and disappearing account minimums.

"We are currently in a cycle where each brokerage house is cutting costs wherever possible to attract new customers, and it's giving the average investor a leg up," Kemsley says.

Investors paid 40% less to own U.S. mutual funds and ETFs in 2018 than they did a decade previous, and about half as much as they paid in 2000, according to Morningstar's latest annual fee study.

"This race to the bottom is similar to what airlines did through the 70s, making flight much more approachable to the everyday consumer," Kemsley says.

But following in the airlines' footsteps may not be entirely good news for investors.

Financial services companies still need to generate revenue somehow. As the ticket price to invest is approaching zero, "the way in which these companies make money becomes more and more obscure," Grealish says.

Instead of clearly posted fees, some companies are scraping revenue off of trades through payment for order flow or they're lending securities you hold with them to short sellers so the company can collect interest on the loan.

"There's a number of ways in which companies can still make money and it might be affecting your bottom line, you just no longer see it in the same way," Grealish says.

This has made comparing financial services companies as challenging as comparing budget airlines, he says. You used to be able to simply compare ticket prices on airlines but now you have to factor in the cost of your bag and if you'll get an assigned seat or be forced to play the window seat lottery when you board. And don't even start on the snack variance.

Robo Advisors Democratize Financial Advice

"The main ingredient that was missing after low trading commissions opened up investing to everyone was the advice piece," Grealish says.

Providing financial advice to smaller investors has been an ongoing struggle for the financial industry and by extension for investors to get advice.

"It's been hard for smaller investors to find (an advisor) because it's more difficult for an advisor to be profitable with a smaller amount of assets," Butler says.

But 2010 changed all of that.

In 2010, Betterment began using technology to bring guided investing to the masses. When others saw these intrepid startups were onto something, they began joining in. Today, most major brokerages offer their own robo advisor arm, proving how well technology and financial services can play together.

Mobile Technology Keeps Investing in Your Back Pocket

"Technology and financial services are coming together at a really rapid rate, especially in the last five to 10 years," says Ram Subramaniam, president of Fidelity Brokerage Services. Investors want the same digital services for their finances that they get in their daily lives. Thanks to the rise of mobile apps and smartphones, this became increasingly possible in the last decade.

"Ten years ago, nobody carried the internet around in their pocket and today, everyone does," Kemsley says. "When someone spots an opportunity, they are just a few clicks away from opening and funding an account and going live with their trades. All those mini-supercomputers in our pockets make us much more prone to and comfortable with investing our accounts ourselves, which is a pretty awesome thing."

Or is it?

Having near-constant access to the stock market can be good for ease of access, but for those with a lower risk tolerance, it can do more harm than good.

"In recent history, when the market has taken tumbles they've been more severe than we've seen in the past," Butler says. Being able to see those fluctuations live and in living color could cause some investors to make detrimental, emotionally-driven investment decisions. Something advisors of the human and robo variety are meant to prevent.

What Will the 2020s Bring to the Stock Market?

Financial services companies of all sizes and shapes are investing in technology and digital experiences.

"Our belief is if you build more scale you can generate value and that's how we share it back to customers in terms of offering zero funds, or offering higher cash value. So we're going to keep investing in those areas," Subramaniam says.

Cash is one area traditional financial services firms and robo advisors both have their eye on.

Betterment hopes to expand into what they call "the everyday part of people's lives," Grealish says. People invest money for the future, but they keep their day-to-day cash in checking and savings accounts.

To this end, Betterment has released a checking account and savings product. Fidelity now defaults customers to a higher-interest money market core position instead of sweeping them into a near-zero yielding cash account as many other firms do. The firm also offers a cash management account with a debit card, checkwriting and free bill pay.

How deep the integration of investing and banking will become is yet to be determined.

"There's a lot of different factors that will play into that because there's a political piece to it with not wanting companies to get too big," Butler says. "If it's left on its own, I think we'll just see companies get bigger and bigger and consolidate more and more, particularly when we see the next market downturn," which will make corporate acquisitions more advantageous.

Read the whole article at https://bit.ly/2rkWk3P