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# Examining the Characteristics of New Zealand Micro-Investors

## Research-in-progress

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## Abstract

Micro-investing is a new and upcoming investment opportunity. Though much is known about the micro-investing scene internationally, there is little information about this from the New Zealand context. In this research-in-progress paper, we propose to examine the characteristics of New Zealand micro-investors. Specifically, we explore the socio-demographics and psychographic characteristics of New Zealand micro-investors using a conceptual model. Additionally, external influences are also examined for their impact on micro-investing decisions. Data will be collected using semi-structured interviews. Results will be analysed qualitatively. Results from this research study will provide insights in developing a broad New Zealand based micro-investor profile.

**Keywords** Micro-Investing, Investor Characteristics, New Zealand, Psychographics, Sociodemographic

## 1 Introduction

The combined effects of technological innovation, heavily reduced fees, reimagined revenue models and intense competition have disrupted stock markets worldwide (Elm 2020). These disruptions have forced organisations to provide broader service offerings, such as micro-investing (Martin 2018; Mohan 2019). Micro-investing typically refers to investing small amounts of money incrementally, often via a dedicated mobile or desktop application. This comes with lower risks and requirements compared to traditional investing methods, such as transactions performed by full-service brokerages (Martin 2018). Therefore, micro-investing exemplifies the current democratisation of stock markets due to lessened entry barriers which bypass traditional financial hurdles for investors (Elm 2020). This opens doors to new types of cost-conscious investors.

Micro-investing is showing strong potential and vigorous growth in international investment landscapes (Martin 2018). The United States of America and several European countries have been most successful thus far in adapting to these new types of cost-conscious investors. This is due to the sophisticated stock trading industries of these regions (Elm 2020). Robinhood, Public.com and Acorns have emerged as leading companies providing micro-investing as a service (Porter 2021; Sabatier 2021). Robinhood paved the way for micro-investing with the introduction of zero-commission trading, fractional shares and advanced real-time market data (Constine 2014). In addition, Public.com accentuates the social aspect of digital trading by encouraging investors to discuss their investment strategies and share their portfolios (Porter 2021). Acorns provides user-centred automated investing and bank account integration services (Sabatier 2021).

As more organisations offer micro-investing the industry has become increasingly competitive, leading to two customer-centred trends (Elm 2020). Firstly, zero-commission trading allows for small incremental trades without transaction fees (Mohan 2019). Secondly, micro-investing services are increasingly being offered via dedicated mobile and desktop applications, which focus on convenience and accessibility while incorporating universally familiar features, such as social media (Porter 2021; Sabatier 2021). These two trends are lowering entry barriers by reducing financial literacy requirements, increasing popularity in micro-investing amongst new demographic groups (Constine 2014). Micro-investing is especially popular with Millennials due to the freedom of self-directed investing via applications, low cost of small investments without trading fees and reduced risk related to zero-account minimums (Elm 2020; Martin 2018). Additionally, the omission of account minimums also opens the target group to lower income demographics (Eskelinen and Perkiö 2018). User-centred investing services have also provided options which facilitate an array of financial preferences (Elm 2020). Furthermore, external influences have shown to impact micro-investing decisions (FSC 2021).

The New Zealand investing sector is dealing differently with micro-investing. The local brokerages offering micro-investing options, namely Sharesies and Hatch, defy the aforementioned trends. Thus, a gap exists in the New Zealand market. Due to low interest rates along with inaccessibility in other investment types, micro-investing is gaining popularity among some investors, who are exhibiting an affinity for the benefits offered by international micro-investing firms (Scoop 2021). This has attracted foreign firms, like Stake and Tiger Brokers, to enter the New Zealand market and provide users with zero or low commission trading, signup benefits and investment options (Stake 2021; Tiger Brokers 2021). Thus, to better understand this group of investors, the socio-demographics and psychographic characteristics of New Zealand micro-investors are explored. Additionally, external influences are also examined for their impact on micro-investing decisions to create a well-rounded understanding of influential characteristics.

This information is important for organisations offering micro-investing in New Zealand to understand their potential target groups. The aim of this research study is to examine the characteristics and preferences of New Zealand micro-investors. The remainder of the paper is structured as follows. In the literature review section relevant literature pertinent to i) socio-demographics characteristics, ii) psychographics characteristics and iii) external influences impacting micro-investors is discussed. Next, the proposed conceptual framework is described and the paper ends with concluding remarks.

## 2 Literature Review

In this section, work related to socio-demographic and psychographic characteristics and external influences of New Zealand micro-investors are discussed. Characteristics in the socio-demographic category include age group and income level and psychographics includes financial knowledge and investing preferences. In the external influences section, social media, market sentiment and global disruptions are covered. The first four prominent characteristics are covered because previous research

identified them to have a direct impact on investors' actions (Eskelinen and Perkiö 2018; Satherley 2017). Several external influences are also covered due to an expected indirect relation to investor behaviour. Each subsection begins by defining the characteristics, followed by a review of literature within the international and New Zealand context. This is done to set the scene within the international and New Zealand environments. However, section 2.2 omits international context discussion due to the lack of equivalency between New Zealand and international income levels.

## **2.1 Socio-Demographic Characteristic - Age Groups**

Age groups can be broadly defined by their generational categories, with most investors represented by Baby Boomers (born 1955-1964), Generation X (1965-1980), Millennials (1981-1996) and Generation Z (1997 and onward) (FSC 2021). While an interest in micro-investing is present across all age groups, it does tend to be more popular among Millennials and Generation Z due to the freedom of self-directed investing via applications, low cost of small investments without trading fees and reduced risk related to zero-account minimums (Elm 2020; FSC 2021; Martin 2018). Conversely, Baby Boomers and Gen-Xers are more risk averse, and are sceptical about micro-investing because of technological distrust (Breaux 2019). International micro-investing businesses have reported an overwhelming majority of users from younger generations on their platforms. For example, the median age of Robinhood users is 31 (Elm 2020). Similarly, in New Zealand, Sharesies reports 70% of their members are Millennials or younger (Anthony 2021). Thus, it is evident that micro-investment platforms cater towards these younger generations as their primary clients. This brings about the first research proposition, RP1: To explore age groups of micro-investors in New Zealand.

## **2.2 Socio-Demographic Characteristic – Income Levels**

Income levels are defined by their New Zealand tax structure: high earners (\$180,000 and above), medium earners (\$48,000-\$180,000), and low earners (under \$48,000) (IRD 2021). Micro-investments are often styled to appeal to less wealthy individuals by way of their increased accessibility through zero account minimums and no subscription fees (Eskelinen and Perkiö 2018). Thus, micro-investing platforms may be the only option for many would-be investors. However, in New Zealand there is limited understanding of the relationship between income level and investing behaviour. This leads to the second research proposition, RP2: To examine income levels of New Zealand micro-investors.

## **2.3 Psychographic Characteristic – Financial Literacy**

Financial literacy plays an important role in helping people make decisions that could influence their financial situation (Satherley 2017). However, this can be difficult to define as it is based on subjective perception. In order to provide an overall view, categories have been adapted from education learning systems consisting of non-educated, self-educated and well-educated (O'Neill 2019). Non-educated includes those without tertiary qualifications with no to very little investment experience. Self-educated includes otherwise non-educated individuals who have some or limited experience with investment. The well-educated category is comprised of formal and informal learnings experienced through tertiary education (O'Neill 2019). Results of a survey conducted by the OECD indicate worldwide financial literacy is low, particularly for Millennials and Generation Z (OECD 2020). Although no data is yet available for levels of financial literacy among micro-investors, it is postulated that several factors engender it towards non-educated and self-educated individuals. Micro-investing offers a uniquely low-risk and low-reward approach to trading, making it especially well-suited to non-educated and self-educated investors (Alexis 2020). In New Zealand, results of studies indicate financial literacy only met the bare minimum for international recognition, and was lowest among Millennials and Generation Z (Galicki 2020). This leads to the third research proposition, RP3: To examine levels of financial literacy of New Zealand micro-investors.

## **2.4 Psychographic Characteristic – Investor Preferences**

Payment and fee structures are often an important factor for users. For example, investors who engage in small and frequent trades prefer low fees so that they can diversify their portfolio (Elm 2020). In comparison, investors of large and short-term trades may prioritise platforms with fast trading speeds and liquidity (Reed 2021). Additionally, investors may consider foreign exchange fees, management fees and other indirect services (Perry 2021). Internationally, zero-commission trading, zero-account minimums and fractional shares allow cost-conscious investors to trade in stocks they would be otherwise unable to afford (Stock 2021). Fractional shares and zero-account minimums are available in New Zealand owned micro-investing platforms; however, zero-commission has not yet been adopted, but is emerging in foreign-owned micro-investing platforms such as Stake and Tiger Brokers (Hatch 2021; Sharesies 2021; Stake 2021; Tiger Brokers 2021).

Internationally, many platforms offer incentives to attract new users such as sign-up bonuses and rewards for friend referrals (Zee 2021). In New Zealand micro-investing platforms' incentives are less attractive than their international counterparts. For example, New Zealand based Hatch gives \$10 for the first \$100 invested (Hatch 2021). In contrast, Australian owned Stake offers a free stock worth up to \$150 USD to their investors on initial bank transfer (Stake 2021). New Zealand based micro-investing platforms such as Sharesies and Hatch have also taken to offering non-monetarised incentives such as kids' accounts and tax assistance to appeal to local investors (Hatch 2021; Sharesies 2021).

Micro-investing firms also provide Robo-advising services. Robo-advising uses algorithms to provide financial advice. This revolutionary technology may motivate some investors toward one platform over another (FMA 2017). Internationally, many younger investors are turning to Robo-advising for easy and inexpensive investing assistance (Tepper 2021). For example, US-based company Acorns utilises a Robo-advisor to create investment portfolios for its users (Tepper 2021). However, as of now there are very few platforms in New Zealand offering this service due to regulations limiting its usage (FMA 2017). The interest toward Robo-advising in New Zealand is substantial, though there are still some concerns over its perceived value and security (FSC 2021). The impact of these various options leads to our next research proposition, RP4: Examining the investing preferences of New Zealand micro-investors.

## 2.5 External Influences

As of 2021, 3.8 billion people regularly use social media (Dollarhide 2021). There are also many Internet based micro-investing communities such as those on Reddit and Twitter (Egkolfopoulou 2021). Social media platforms allow not only the sharing of financial knowledge, but also cultivate community spaces to promote engagement (Gaggar 2021). Internationally, investment businesses such as Robinhood have created similar spaces within their platforms by giving their users certain social abilities. This includes 'following' other users and creating and commenting on posts (Constine 2020). Additionally, many micro-investing platforms both internationally and within New Zealand offer friend referrals, a tool used to incentivise community growth (Sabatier 2021). New Zealand based micro-investing platforms such as Sharesies and Hatch have also utilised social media to host discussions and other community interactions (Anthony 2021). Those who are motivated by social standing can often be influenced by these user groups, as seen in trends such as the recent Gamestop phenomenon (Egkolfopoulou 2021).

In addition, market sentiment, such as bull or bear can influence investor decisions (Kramer 2021). In a bearish market, investors may withdraw their investments until market conditions improve. Conversely, in a bullish market, investors believe that the uptrend is likely to continue, leading to increased investment (Kramer 2021). Global disruptions can also affect financial choices. A recent example is the COVID-19 pandemic, which led to a dramatic increase in micro-investing (Gaggar 2021). This is because the lockdowns and restrictions reduced outlets for spending, increasing available investing funds (Gaggar 2021). However, more research is needed before these factors can be related to investment decisions. This brings about our fifth research proposition, RP5: To explore the impact of external influences on micro-investment decisions.

## 3 Proposed Conceptual Framework

The conceptual framework proposed for this research is presented in Figure 1. The elements investigated originate from the broader fields of socio-demographics, psychographics and external influences. These external variables are pertinent as they are closely tied to the behavioural intention and use behaviour for micro-investing (Eskelinen and Perkiö 2018; Satherley 2017).

The model depicted in Figure 1 presents three main categories that form the basis of this research study. These are socio-demographics, psychographics and external influences. These are then split into the seven characteristics identified in the paper, which make up RPs 1-5, where RP5 forms a general research proposition that encompasses its three associated subcategories. These propositions then converge into the analysis of the influential characteristics that directly inform the development of the New Zealand micro-investor profiles.

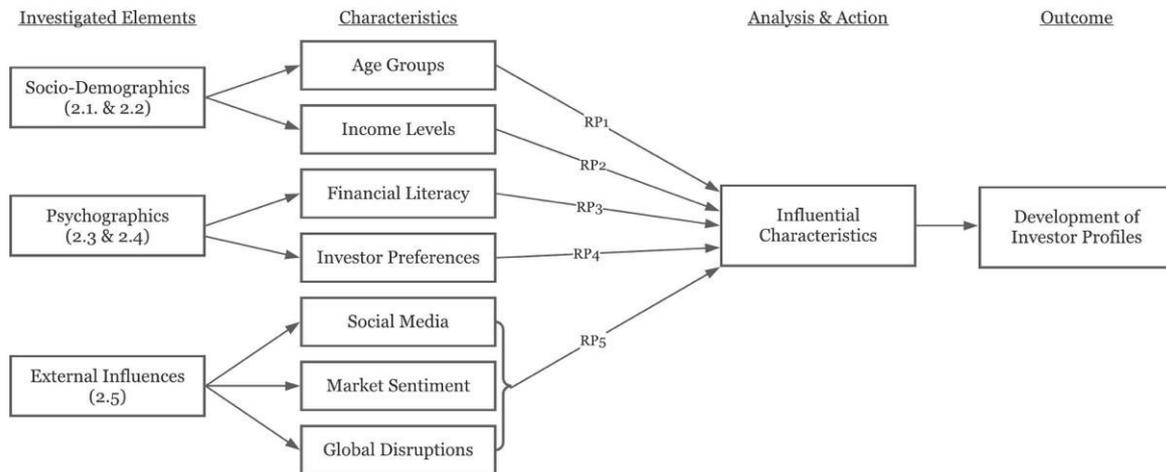


Figure 1: Proposed Conceptual Framework

## 4 Proposed Research Methodology

A grounded theory approach (Strauss and Corbin 1998), using semi-structured interviews will be utilized to conduct this research study. Grounded theory is used as it allows for theories to be developed from research grounded in data. It also allows the adoption of a neutral view of human action in a social context (Simmons 2006). This technique is useful when generating understanding of areas with little past research (Strauss and Corbin 1998). A purposeful homogenous sampling technique will be employed. Results will be analysed qualitatively.

### 4.1 Recruitment of Participants

Human ethics approval will be sought prior to conducting this research study. Participants will be recruited through call for participation notices on micro-investing and social media platforms, and on investing communities, such as The Investment Society (institution removed for refereeing). Several inclusion and exclusion criteria must be followed. Participants must be New Zealand citizens or be residing in New Zealand and be over 18 years of age. In addition, participants should either be a micro-investor or have the intention of becoming a micro-investor.

### 4.2 Data Collection

Data will be collected using semi-structured interviews. Semi-structured interviews allow for deep exploration of participants' thoughts and experiences (DeJonckheere and Vaughn 2019). The interview questions will be open-ended and will revolve around research propositions (RPs) 1-5. For example, for RP 5, participants will be asked about how, why and to what extent social media, market sentiment and global disruptions influence their micro-investing decisions. The interviews will be audio recorded and transcribed verbatim to allow close links to be created between the data and the researcher (Strauss and Corbin 1998). Data collection and analysis will be done iteratively and data collection will be deemed complete when theoretical saturation (Saunders et al. 2018) is reached. A pilot test will be conducted prior to the start of the main data collection period.

### 4.3 Data Analysis

The open coding technique will be used, and coding categories will be derived inductively from the audio recordings via the grounded theory approach (Halcomb and Davidson 2006). A master list of codes will first be created based on induction. These codes will be revisited after every third participant. Codes will then be reduced to themes using the constant comparative method (Zhang and Wildemuth 2005). The constant comparative method is used as it goes through four stages of constant comparison where theory is reinforced (Glaser and Strauss 1967). Data analysis will begin immediately after each interview and interpretive analysis will continue until the completion of the study (Bickman and Rog 2008).

## 5 Conclusion

This research-in-progress paper examines the socio-demographic and psychographic characteristics of micro-investors in New Zealand. It also explores the impact of external influences on decision-making processes of New Zealand micro-investors. This research study is novel because it is the first to provide broad information on the micro-investing scene in New Zealand. Results of this research study are important because they provide local micro-investing businesses with pertinent information to identify and attract the target population in New Zealand. This enables local micro-investing firms to improve their viability and sustainability. There are several limitations which need to be acknowledged. Results of this research may not be generalised, and it may be challenging to obtain representation from all micro-investors in New Zealand. In future work, other characteristics such as household size, education level and geographic location will be examined, along with their potential influence on micro-investing decisions.

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