Introduction:

Manole Capital Management is a boutique asset manager based in Tampa, FL that exclusively concentrates on the emerging FINTECH industry. Manole Capital defines FINTECH as ***"anything utilizing technology to improve an established process."***

For the last five years, Manole Capital has asked its interns to conduct research on the Gen-Z demographic. Manole Capital's goal, with this research, is to better understand the Gen-Z financial services perspective. We inquire about current opinions, perspectives, and trends in four key financial services: digital currencies, brokerage, banking, and the payments industry. This prior research can be viewed by clicking here or visiting: www.manolecapital.com/research.

2022 Interns:

This year, our research was conducted this year by 7 interns, all from different colleges and universities. We want to thank Danni Liu (Cornell University), Olivia Liu (Cornell University), Jett Sacks (University of Southern California), Stone Sacks (University of Southern California), Samantha Wong (Boston College), Rebecca Zamsky (Lehigh University), and Freya Zhou (Barnard College).

Generations:

- The Silent Generation was born before 1945 and are older than 76
- Baby Boomers were born from 1946 to 1964 with the youngest being 58 years old
- Gen-X was born between 1965 to 1980 with the youngest being 42 years old
- Millennials were born between 1981 to 1996 with the youngest being 26 years old
- The Gen-Z cohort was born from 1997 to 2012 and are between 10 and 25 years old

Here we briefly describe the characteristics of each generation to get an understanding of how their underlying traits could have shaped the way financial services have been conducted up until now. Having childhoods that pre-date modern technology, ***Baby Boomers*** value personal relationships and have strong interpersonal skills. With the invention of cell phones and computers, Baby Boomers were forced to adapt and learn new technology quickly. Some have, but some are hesitant to acclimate to the driving force of today's social society. Baby Boomers are often characterized as optimistic, idealistic, and self-driven and have shown a tendency to be loyal. For example, studies show that Baby Boomers spend an average of 15 years with their bank or brokerage. After years of climbing the corporate ladder, many are now exiting the workforce and enjoying retirement and sharing time with their family.

Gen-X is sometimes referred to as the "lost generation". Some had two workaholic parents and others were raised by single or divorced parents. Because of this, Gen-X tends to place more emphasis on a balanced work/life co-existence. Often, Gen-X cohorts have more individualistic ideals and are often self-sufficient, skeptical, and resourceful. Having been the first generation to master modern technology, ***Millennials*** are successful and driven. However, some have become too dependent on technology and their interpersonal skills have suffered. As opposed to being raised by authoritative Baby Boomers, Millennials have been raised by Gen-X individuals, that sometimes view parenthood as a partnership. Accordingly, Millennials were given more leeway and leniency, paving the way for some to display a degree of selfishness and the desire to have everything, without much in return.

Participants:

We received insights from over **100** participants, with 87% in our targeted Gen-Z demographic. The vast majority of our remaining respondents were Millennials, at 9%. In terms of gender, our responses were evenly split, with 50% identifying as female, 49% as male, and 1% preferred not to identify.

Our surveyed population came from over 30 different colleges and universities and also included dozens of high school students too. While 92% of our responses were from the US, we received feedback from several individuals from China and the Dominican Republic.

We anticipated a larger sample size this year, versus what we received in prior years (nearly 350 in 2021). However, this year was more of a challenge to get respondents to answer. Maybe this was due to the sheer number of questions we asked, which was close to 40? Maybe Gen-Z isn't as willing to share their thoughts on these subjects? Maybe our form factor (mobile phone based) didn't resonate? Either way, we hope to get 300 to 400 respondents in our future surveys, as we believe this represents a better and larger sample size.

Why Study Gen-Z?

Recent research from the United Nations and Jefferies indicates that there are over 2 billion Gen-Z people worldwide, representing more than 25% of the global population. Asia is the largest Gen-Z geography, with 58% of this demographic. Africa is 2nd at 23%, Latin America and the Caribbean is 3rd at 9%, followed by Europe at 6%, North America at 4%. 90% of Gen-Z is currently in emerging or frontier markets, with India being the single largest country exposure. For perspective, the US is the 6th largest Gen-Z population with 65 million.

For the last few decades, Baby Boomers have dominated our economy. More recently, Millennials have overtaken Baby Boomers in the US workforce. The largest and most important cohort will shortly switch from Millennials to Gen-Z. By 2025, Gen-Z should make up 30% of the workforce. In the US alone, Gen-Z's 2021 income amounted to $360 billion, and it is expected to increase by 5x between now and 2030. Gen-Z represents the future of our workforce, and their views and opinions should have a meaningful impact on our economy for decades.

In terms of wealth, this group is slated to inherit a significant amount of money from their Baby Boomer, Millennial and Gen-X grandparents and parents. Jefferies estimates that just in the US, the Baby Boomers currently have $78 trillion of household wealth. Understanding how Gen-Z views important financial services should provide valuable insight in banking, brokerage, and spending trends. We hope this analysis provides important understandings of Gen-Z behaviors.

Optimistic?

For this year's survey, we changed some of our questions to address the impact from COVID-19 and the global pandemic. After each section of Q&A, we plan on providing our opinion and some specific bigger picture takeaways.

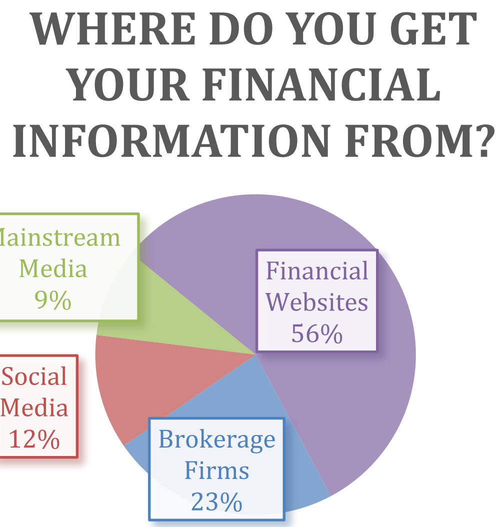
During the 1st half of the year, the S&P 500, our best indicator of the US stock market, was down (21%). This was its worst start to a year since 1970. This decline represents a loss of roughly $9 trillion of wealth, from the January 4th market peak. To put this amount into perspective, it more than offsets the impact of fiscal and monetary COVID-19 stimulus. Also, these market losses are a trillion dollars more than what was lost during the Financial Crisis. Our survey was conducted during this stock market weakness, so it might have impacted overall sentiment.

For the 1st time ever, we started our survey by asking a simple question. We asked, "Are you positive or negative on the US economy"? We anticipated that Gen-Z would be generally optimistic on the US economy, and we thought it would come back significantly positive (in the 75% to 80% range). However, the results did not reflect a positive outlook and surprisingly, 53% of our respondents were **NOT** positive on the US economy. As a recent Gallup data indicated, only 1% of its poll view current economic conditions as "excellent". Instead, 85% of Gallup's respondents view current economic conditions as "fair to poor." Looking forward, 77% of Americans expect the outlook to get worse, so maybe our Gen-Z survey wasn't terribly "off the mark", with its less-than-optimistic expectations for the US economy.

Question #1 Sources of Information

Our 1st question tried to understand where Gen-Z goes for their financial information. We asked where Gen-Z is getting their financial information from, providing options like brokerage firms, social media, mainstream media, and financial websites.

As you can see in this pie chart, the vast majority of Gen-Z uses financial websites (56%) to gather their information. The 2nd source of data and information, at 23%, is brokerage firms. This is surprising to us, but a positive development, as the amount of educational information available to retail investors is quite amazing. We just weren't sure that Gen-Z actually utilized the vast amount of educational information made available to them by various brokerage firms.

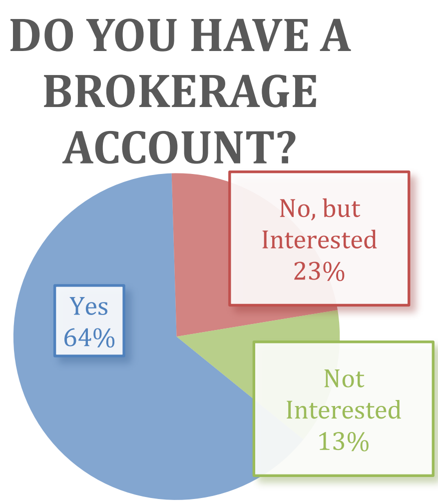


The 3rd source of information is social media, which we already knew was important to Gen-Z. In last year's survey, TikTok and Reddit / Wall Street Bets were valuable to Gen-Z data collection process and each received 6% market share.

The 4th and last option Gen-Z gets their financial information from is traditional, mainstream media. While we already knew that Gen-Z wasn't an ideal mainstream media target, this just further proved that point.

Question #2: Accounts

During the COVID global pandemic, there was an explosion of trading volumes. In fact, since the start of 2020, more than 20 million people have opened a brokerage account in the US.



As a baseline for understanding the brokerage industry, we always like to simply ask how many of our Gen-Z respondents have a brokerage account. We asked if they had a brokerage account, or if not, would they be interested in opening up an account.

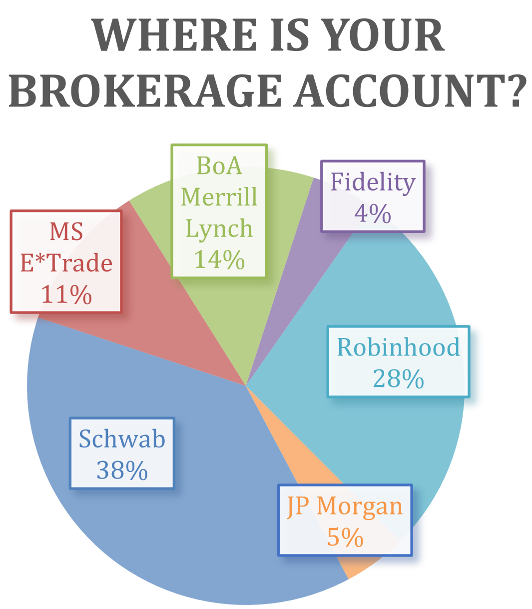
This year, 64% of our survey confirmed that they have a brokerage account. Of the 36% that didn't have an account, the vast majority were actually interested in opening up a brokerage account.

Last year, 48% of respondents said they had a brokerage account, and it was just 30% in 2020. That shows excellent growth over the last couple of years. Also, in 2020, 25% of our survey didn't have an account and also had no interest in opening one up. That declined to 18% last year and fell again to just 13% this year.

In our opinion, it is a positive sign (for the brokerage industry) that so many of Gen-Z haves already opened an account or are very interested in starting a relationship with a brokerage. Going back to our initial survey in 2018, only 17% of Gen-Z had a brokerage account. Now, it is the vast majority that have an account or are interested in opening up an account. We imagine that brokerage firm executives are salivating at these statistics and strong level of interest.

Question #3: Market Share

After years of market dominance by certain big brokerages, a collection of new, contemporary companies has arisen. These brokerages have gained in prominence because they give rapid access to the markets in a user-friendly manner (i.e., our mobile phones).



According to Bloomberg Intelligence, retail trading now equates to 22% of total equity trading volumes, which is more than 2x the share a decade ago.

Our next question attempted to understand where our Gen-Z cohorts had their brokerage account. As you can see in this pie chart, the leading brokerage in our survey this year was the combined Charles Schwab and TD Ameritrade at an impressive 38%. 2nd place was Robinhood at 28%, 3rd place was Bank of America's Merrill Lynch at 14%, followed closely by Morgan Stanley's E*Trade at 11%.

Last year, 43% of the surveyors had an account at Robinhood. This was far and away the highest market share of our Gen-Z survey. In fact, Robinhood had shown steady growth every year, going from 22% in 2018 to 26% in 2019 to 29% in 2020 to the dominant spot last year.
With our research last year (click here), we highlighted several flaws in Robinhood's business model (reputational risks, execution issues, too reliant on crypto, gamification of trading, payment for order flow, etc). Maybe some of its IPO purchasers should have read our research beforehand?

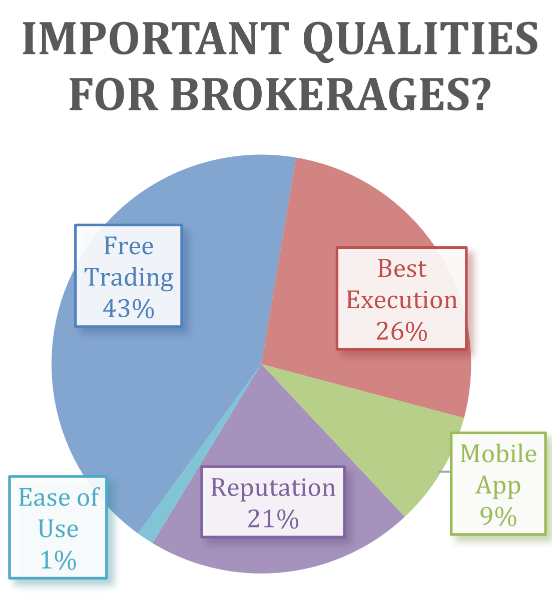
As this IPO-to-date chart (from Bigchart.com) shows, Robinhood stock has been a disaster. Over the last 5 quarters, Robinhood has lost $4 billion and seen its stock fall by over (75%). Before its July 2021 IPO, Robinhood had monthly active users of 24 million, but it has seen it drop dramatically to just 14.6 million (as of last May).

Over the last year, crypto trading has plummeted by over (90%) and the average Robinhood account is still very small (just $200 to $300 in size). Speaking of crypto, we find it interesting that Sam Bankman-Fried's FTX exchange took a 7.6% stake in Robinhood this year. Maybe it is thinking about branching into equities and options? Maybe it wants to exclusively offer its crypto trading to those 15 million accounts?

Robinhood has been forced to adapt to current conditions and it has shuttered recently opened branches and cut its workforce by roughly 10%. In this challenging equity environment, we do not believe it is wise to lower service levels. In fact, we know that Charles Schwab and other traditional online brokerages have continued to spend more during this period (example: Fidelity just hired 9,000 new employees to keep up with its growth projections).

So, Robinhood is way less popular with Gen-Z than last year. Who is gaining market share? Well, it seems that Charles Schwab and TD Ameritrade are now the preferred brokerage for Gen-Z. Last year, TD Ameritrade was 20% and Schwab was 7%. It looks like this combined powerhouse is resonating with Gen-Z, as it took the #1 spot this year. In terms of market share losers, we would highlight WeBull's fall, as well as the steady decline in Fidelity's accounts.

Question #4: Important Qualities



So, we know where Gen-Z has brokerage accounts and where they get their information. Next, we wanted to understand what qualities are most important to them, when selecting a brokerage firm. We asked about "Reputation", "Ease of Use", "Free Trading", "Best Execution", and "Mobile App".
In last year's survey, reliability & reputation appeared to be the top characteristics that participants were looking for. This year, we added "Free Trading", and it become Gen Z's new "must have" trait.

Surprisingly, the 2nd most important quality that Gen-Z is looking for is best execution. Last year, "ease of use" was the 3rd most important quality a brokerage needed to have, but it fell to last place this year, at just 1%. This makes sense as all brokerages have easy to use mobile applications right now.

Question #5: "Free" Trading

We continuously use quotes around the word "free", as everybody knows that "nothing in life is free." While trading might be "free" of commissions, there is a valuable service being provided to the consumer.

Zero-dollar trading commissions have transformed the entire online brokerage industry, allowing even the smallest of retail investors to get involved with equities. Now that trading is "free", there is absolutely no way retail brokerages could return to an environment of charging for trading.

Firms like Robinhood (ticker HOOD) gained in popularity offering the opportunity for Gen-Z individuals to trade equities and options on their mobile phones. Robinhood was one of the first brokerage firms to offer "free" trading, which then caused Fidelity, Charles Schwab, E*Trade, TD Ameritrade, Interactive Brokers, and others to follow equity trading pricing to $0.

We wanted to ask if Gen-Z would keep their account and trade at a firm that didn't have "free" trading. The answer is fairly clear.

As you can see in this pie chart, the answer is clear. Over 2/3rd's of our Gen-Z respondents would leave their current brokerage firm if that firm charged trading commissions.

In the event that the SEC acts on Payment For Order Flow (see next question), we do not believe that trading fees will get re-instituted. Simply stated, brokerages can't put that "genie back in the bottle."

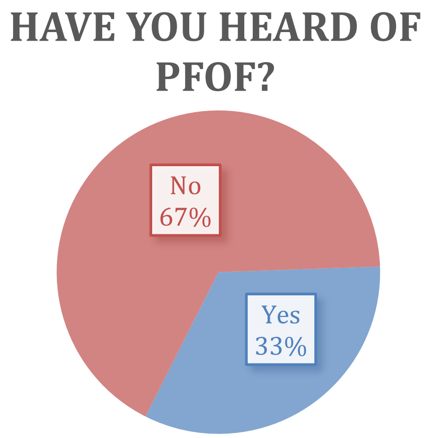
Question #6: Payment for Order Flow (PFOF):

In 2021, total PFOF was $3.8 billion and in the 1st quarter of 2022, there was $840 million paid for equities and option trades. These payments are made to brokerages by trading entities, serving as a form of compensation for routing volumes to their market maker exchange. For Robinhood, roughly 75% of its total revenue comes from PFOF, while it was estimated to only be 5% of Schwab's 2020 revenue.

Over the last year or two, PFOF or payment for order flow has been under serious scrutiny. The SEC and its Chairman Gary Gensler have questioned its widespread usage and seem to believe that retail customers are disadvantaged on pricing if their brokerage is selling their order flow. On the flip side of the equation, brokerages are now able to offer "free trading", since they are receiving some payments from market makers like Citadel Securities, Virtu (ticker VIRT) and Susquehanna. Plus, these market makers claim to be providing price improvement and superior trading execution, making it a "win win" for all involved. The benefit to traders is that these market makers are executing trades inside of the quoted spread and providing material price improvement.

Our next question simply asked if Gen-Z had heard of PFOF? While "free" trading is critical to Gen-Z, the vast majority of our survey had never heard of this subject.

We applaud the SEC for attempting to protect retail investors, but it looks like the vast majority of Gen-Z isn't even aware of this PFOF controversial issue. Considering that PFOF helped make trading "free", most Gen-Z investors would probably approve of the current payment process, especially if their brokerage confirmed that they were getting best execution.



Research Link Between PFOF and Execution:

PFOF is a very complicated subject that will likely get regulatory comments by year-end. If you want to understand more aspects of PFOF, there was an excellent research piece on the subject published recently called "The Actual Retail Price of Equity Trades". Click on this link to read this 70-page note studying five leading retail brokers and how pricing changed for 85,000 identical stock orders for 128 different stocks.

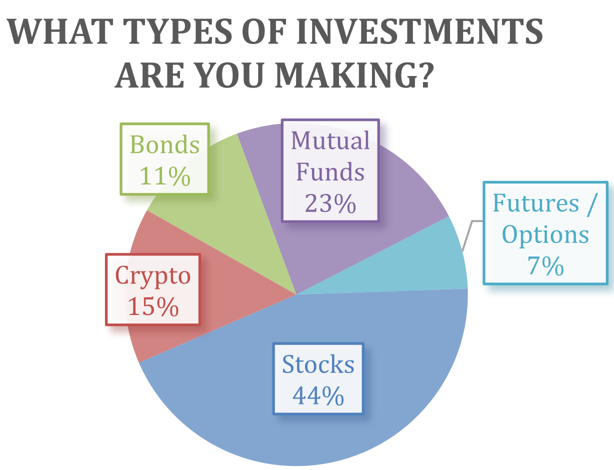
These cash constrained academics (Christopher Schwarz, Brad Barber, Xing Huang, Philippe Jorion and Terrance Odean) had to limit their trading to modest sized orders. Also, since the professors funded these trading accounts themselves, with a minimum balance of $25,000, there were significant costs involved. We believe that a more thorough study should be undertaken by the SEC, examining different (and larger) sized orders, as well as the impact across various market capitalizations and liquidity constraints. At a minimum, this subject deserves significant examination and data collection.

Hint: the best pricing and trade executions came from a broker that currently takes a modest amount of PFOF (i.e. Schwab). According to Charles Schwarz, a finance professor at the University of California-Irvine, who co-authored this study, "there's no relationship in our data between paid order flow and price execution."

Gregg Berman, who leads market analytics at Citadel Securities was pleased with the analysis and stated, "the paper recognizes the significant price improvement we and other wholesalers provide to retail investors as we compete for broker flow." We imagine this issue will be very controversial for the SEC to address, but we will see.

Question #7: Investment Types

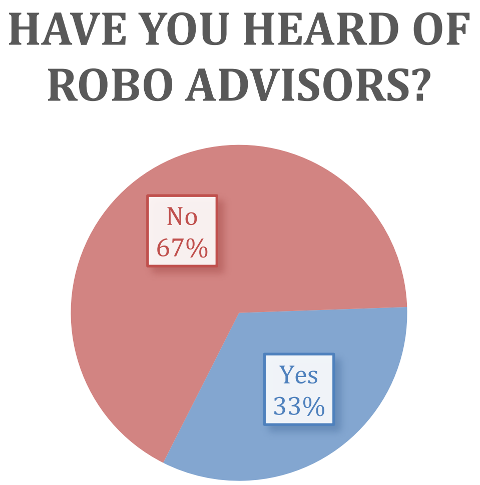
For our 4th question, we wanted to inquire what type of investments Gen-Z is making. The dominant type of investment Gen-Z is making is stocks or equities at 44%. Following stocks are mutual fund vehicles, which we can safely assume are equity-based. This equates to 2/3rd's of our Gen-Z survey investing in the stock market.



Following equities, crypto is next most popular investment at 15%. With most crypto currencies being down (50%) this year, it isn't too surprising to see this type of investment fall. For more information about Gen-Z and their thoughts on the crypto space, be sure to read our detailed note on this subject (expected in 1-2 weeks).

Despite rising interest rates, 11% of our Gen-Z survey invests in fixed income and bonds. The least popular choice for our Gen-Z survey is futures and options trading. This is often quite complicated, so we aren't terribly surprised at this minimal level of interest.

Question #8: Robo-Advisorss



For our last question, we wanted to inquire about knowledge and understanding of robo-advisory services. Unlike holistic advice provided by financial advisors, robo-advisors typically employ an online questionnaire and automate investments for clients.

We haven't inquired about robo-advisors in a couple of years, but we continue to hear chatter about it in the industry. We wanted to better understand if robo-advisory services were on Gen-Z's radar. A secondary question would be if Gen-Z was interested in utilizing digital platforms offering algorithm-driven, automated financial planning services, but we needed to set the framework first.

Back in 2019, nearly ½ of our survey had heard of rob- advisory services. As you can clearly see, 2/3rd's of Gen-Z aren't aware of robo-advisory services. We cannot imagine that robo services are the future of the advisor market, especially if the vast majority of Gen-Z doesn't know what it is, right?

It looks as if Gen-Z might prefer human interaction and a relationship with a well-established advisor. If advisors want to understand how to work with Gen-Z and attract them as clients, it might be helpful to read this article in Advisorpedia. It is titled "How Advisors Can Effectively Communicate with Gen-Z" and it is an interesting 3-page read.

Conclusion:

With this year's Gen-Z brokerage survey, we can make a few generalizations. Gen-Z is interested in the stock market and they are opening up and interested in having a brokerage account. While Robinhood is still an important Gen-Z brokerage, Charles Schwab (ticker SCHW) made market share gains versus prior years. Was this due to parental influence? Was this from Schwab's acquisition of TD Ameritrade? Either way, it seems like Gen-Z seems to like the OG (original gangster) of the online brokerage world - Schwab.

On the fee front, Gen-Z absolutely expects "free trading" and does not seem inclined to get charged anything in terms of trading commissions. Also, Gen-Z is unaware of PFOF or payment for order flow, despite the SEC's focus. Surprisingly, social media is not dominant, in terms of where Gen-Z gets their financial information from. Instead, traditional financial websites are valued, as are educational materials from brokerages. Lastly, robo-advisory services aren't on the radar screen for Gen-Z, despite having sexy terms like quantitative algorithms and machine learning.

We have recently noticed that certain meme stocks have reappeared, which could potentially lead to more retail trading. Gen-Z appears to be learning about the stock market, as well as the somewhat complicated brokerage industry. The best lessons are often learned from challenging past experiences, and the brokerage industry is no exception. As Jordan Peterson said, "experience is the best teacher, and the worst experiences teach the best lessons." Let's hope that prior meme stock lessons and trades (in 2020 and 2021) don't get forgotten in 2022 and beyond.

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