

Markets

Stock Investors Are Younger and More Racially Diverse

Recent changes in the investing landscape will have far-reaching implications for both the government and companies.

By [Aaron Brown](#)

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The stock market is a more diverse place. *Photographer: Bloomberg*

Brokerage firms such as Robinhood Financial LLC, zero-commission trading, the surge in exchange-traded funds and the growth in fractional share ownership have all had a hand in luring a new generation of investors to the stock market in recent years. If anything, the Covid-19 pandemic has accelerated the trends, as evidenced by the unnaturally high prices paid for shares of bankrupt Hertz Global Holdings Inc. or Tesla Inc.'s soaring stock price.

Now comes a new Yahoo Finance Harris poll that reveals other changes in the investing landscape that have far-reaching implications for both the government and companies. For one, more than half the racial gap in individual stock ownership has disappeared essentially

overnight. Also, both younger and older Americans are now more likely to own stocks than those in their prime, middle-age asset accumulation years. More than one-third of those middle-aged investors have greatly reduced their stock holdings.

What does it mean? Of course, it could turn out to just be a millennial fad, or a transitory effect of the lockdowns, or even just an outlier survey. But if the results represent a long-term trend they could overturn some long-held assumptions. For one, the political appeal of running an anti-Wall Street platform may not be as effective among young and non-White voters as in the past. And claiming credit for good stock market performance might not matter as much to middle-aged White voters.

Public corporations may find that their individual shareholders are becoming more diverse than their executive ranks and boards. Most of the pressure to date for corporate diversity has come from institutional shareholders. Individual shareholders seldom vote, and while the new, young and non-White shareholders probably don't represent a significant block of shares, the cultural view of public companies is very much influenced by shareholder characteristics. Companies that can win the loyalty of new investors, especially younger ones, can enjoy relatively cheaper and more secure capital over long periods of time - as evidenced by Tesla.

The table below shows the percentage of U.S. households owning at least one individual stock not held in a retirement account from the [2016 Survey of Consumer Finances](#) and the September 2020 YFH poll, by race.

A Changing Market

Stock ownership is becoming younger and more and more diverse

Sources: Federal Reserve 2016 Survey of Consumer Finances; September 2020 Yahoo Finance-Harris Poll

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Owning individual stocks has a large effect on people's attitudes in politics, financial decisions and cultural identification. It's true that all Americans have a stake in the stock market, with more than half exposed through mutual funds and retirement accounts. Workers covered by public pensions are indirectly exposed because the ability of funds to make promised payments depends on the stock market's performance. Even people with no assets linked to stocks are helped when the market goes up because it tends to lead to more jobs and higher wages. But these kinds of indirect exposures are less intense than what investors who pick and own individual stocks directly feel.

While the chart above shows the total change since 2016, there is reason to believe that most of it occurred in 2020. The next chart addresses that idea, asking respondents who owned individual stocks if they reduced or increased holdings in 2020. The remainder said they kept their stock investments about the same.

Adding Shares

Minorities are adding to their stock holdings at a faster rate than White non-Hispanic investors

Source: September 2020 Yahoo Finance-Harris Poll

Similar percentages reduced holdings among all races, but Blacks and especially Hispanics were much more likely than Whites to increase.

Young and old people were more likely to own individual stocks in 2020 than 2016, but in the prime middle-age asset accumulation years, more than one-third of individual stockholders sold off their stocks. A 40-year-old is now more likely to own individual stocks than a 60-year-old.

A Barbell Market

The share of stocks owned by middle-aged folks has dwindled

Sources: Federal Reserve 2016 Survey of Consumer Finances; September 2020 Yahoo Finance-Harris Poll

These huge demographic changes have occurred without much change in stockholding patterns by income, education, family type, home ownership or region—factors normally considered more important to investment behavior.

The stock market was invented mainly for older, wealthy, white men and any movement toward broadening the base was scotched by the Great Depression. It wasn't until the Baby Boomers reached working age that the market began to democratize, mainly via low-cost index funds and equity selections in tax-deferred retirement accounts, and the change did not take strongly among non-whites.

Generation X imitated its parents, but as Millennials reach working ages a new paradigm may be emerging—aggressive equity participation by young people of all races, centered on active

trading of individual stocks. The dollar amounts are small today, but the long-term impact on markets, the economy and society could be profound.

The Elizabethan poet Thomas Nashe wrote "A Litany in Time of Plague" in which he warned, "Rich men, trust not in wealth, Gold cannot buy you health." Millions of non-rich Americans, mostly young and non-White, are using this time of plague to start trusting in stocks. That may prove to be one of the bigger social changes from pandemic.

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