

## Three Innovations Balancing Investor Access with Risk Taking: Crypto, Securities Lending and Fractional Shares

### Younger Consumers Most Drawn to Risky Innovations; Crypto Use Triples in One Year

(March 24, 2022, Rye, NY) – Three innovative financial offerings – cryptocurrency, fractional stock shares and securities-based lines of credit (SBLOCs) – are going mainstream with penetrations in the double digits among U.S. households, especially among younger investors, but not all investors understand the levels of risk being assumed, according to a new research report by [Hearts & Wallets](#), the market research and benchmarking firm that specializes in consumer saving, investing and financial advice.

**Crypto, Securities Lending & Fractional Shares: Balancing Access vs. Risk in Innovation** explores U.S. household engagement with three financial innovations. The report analyzes investor behavior by generation and asset level, sizes consumer groups in number of households, provides competitive insights, and segments by generation-asset and divergent risk-taking behaviors of retail investors. The research includes the latest survey wave of 5,794 U.S. households in Sept. 2021 and trended data of 65,000 households dating back to 2010 in the Hearts & Wallets Investor Quantitative™ Database, recognized as the largest single dataset with over 100 million data points on consumer saving, investing and advice behaviors.

#### **Belief in Trading Ability Drives Crypto Use**

Crypto use almost tripled in the past year with 1 in 4 U.S. households now using crypto, jumping from 8% in 2020 to 22% in 2021. Trading is driving the nearly three-fold increase with 3 in 4 crypto users saying they use crypto because “high volatility creates opportunities to make money trading.” Crypto users are nearly 3 times more likely as non-users to cite fear of missing out (FOMO), or “possibly missing out on investment growth is a bigger worry to me than the risk of losing money in the short term,” as a reason for crypto use. Crypto users are twice as likely as non-users (54% vs. 28%) to “enjoy thinking about money.” Still, only 28% of households that trade crypto for its volatility are “very comfortable” with risk in their investments.

“The crypto boom seems to be attracting novices driven by a fear of missing out,” Laura Varas, CEO and founder of Hearts & Wallets, said. “These investors enjoy thinking about money, although crypto may not be the best way to express this enthusiasm. Many crypto users say they are not comfortable with investing risk, and crypto, like all currency trading, is inherently risky.”

Engagement with crypto grew the most among Millennials, increasing from 14% in 2020 to 38% in 2021. Over half (53%) of Millennials with \$100,000 to \$1 million say they have used crypto in the past year (up from 21% in 2020), and 64% of Millennial millionaires have used crypto to some degree. 34% of crypto users in the past year consider themselves “very” or “somewhat” inexperienced investors, compared to 14% in 2020.

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“Firms may want to consider proactive outbound communications or representative training to help inexperienced investors weigh the risks of crypto trading in comparison to other investment opportunities,” Carla Ernst, Hearts & Wallets Data Storyteller / Product Manager, said.

## Fractional Shares Have Big Appeal

Nearly half of U.S. retail investing households now use or are interested in fractional shares. Appeal is highest among younger households, with 65% of Gen Z, 60% of Millennial and 53% of Gen X households currently using or interested in fractionals. Nearly 40% of households interested in fractional shares currently have no exposure to equity, with a number expressing discomfort with risk. Over 35% of consumers who are interested in fractional shares say they are “very” or “somewhat uncomfortable” with investment risk.

“Fractionals could be a good way to engage consumers who are newer to investing and tend not have any exposure to the equity asset class, more so than crypto,” Varas said.

## SBLOC

Nearly 40% of U.S. households has or has expressed interest in an SBLOC. Half of households with SBLOCs are currently drawing on them. On average, households who have and are drawing on SBLOCs have a strong cash position, indicating SBLOC are often used to shore up liquidity stores. Younger generations are most likely to be current users of SBLOCs and show the most interest.

“These innovations provide investors with more options and also the potential of more risk,” Varas said. “Investors should understand crypto has the most potential for risk. Fractionals have some danger of inappropriate use. Most SBLOCs today are not being misused. Fractional shares offer the biggest potential impact on the mass consumer financial situation.”

## Know Your Customer

Because households often use more than one<sup>1</sup> financial services firm, providers may not realize the full extent of customer involvement with certain products. The report provides snapshots of customer use for these financial innovations. In the case of fractional shares, use is most common among customers of Ally, TD Bank, E\*TRADE from Morgan Stanley, Ameriprise and American Funds, at 20% or above.

## Methodology

*Crypto, Securities Lending & Fractional Shares: Balancing Access vs. Risk in Innovation* report analyzes use and interest for three financial innovations among U.S. households. The research draws upon the Hearts & Wallets Investor Quantitative™ Database (IQ Database), recognized as the largest single dataset with over 100 million data points on consumer buying patterns from 65,000 U.S. households. The latest survey wave was fielded in September 2021 and includes 5,794 participants.

## About Hearts & Wallets

Hearts & Wallets is the market research and benchmarking firm that specializes in how consumers save, invest and seek financial advice. Leading firms rely upon Hearts & Wallets thought-leadership reports, software and benchmarking to make their saving, investing and advice solutions more consumer-centric. For more information visit [www.heartsandwallets.com](http://www.heartsandwallets.com).

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<sup>1</sup>55% of U.S. households have 2+ financial services relationships, with wealthier households often having more. Hearts & Wallets *Stores & Success Metrics: The Battle for Customer Loyalty Heats Up as Big Firms Gain Share and Service Models Diversify* (June 2021).