The Demand *for Italian* Shares *and retail investors*

During the course of 2004, the weight of foreign investors on Italian equity market capitalisation stabilised at 14%. Based on this indicator, the Italian equity market's level of international opening appears substantially unchanged since 1999, following the rapid growth experienced towards the end of the Nineties.
The role of the non-domestic component on trades carried out on the Italian equity markets is much more significant. The average for 2004 (first eight months) amounted to just over 40% of the total trading, a figure in line with that of 2003 (42%). This marks a downward trend compared to 2002 and 2001 (respectively 55% and 49%), two years during which overall foreign turnover gave no sign of a slide with respect to the peaks of 2000 against, on the other hand, a reduced activity in terms of internal demand.

As regards the internal demand for shares, the weight on overall capitalisation of mutual funds managed by Italian intermediaries, which represent half of the entire institutional investor portfolio, at the end of 2004 settled at a level of 4.6%, similar to that of 2003 year-end (4.7%). Investment carried out by harmonised funds incorporated under Italian law continued to decline as a percentage of overall capitalisation, to reach 3.2% at the end of 2004 (from 3.5% at 2003 year-end); on the other hand, there was a slight growth in the weight of funds incorporated under foreign law promoted by Italian intermediaries. All this happened in a year during which the weight of Italian listed shares in the portfolios of mutual funds incorporated under Italian law increased with respect to 2003 (5.2% of net assets against 4.5% at the end of 2003), while the exposure on international equities remained stable (18.1% compared to 18.4% at 2003 year-end).

Direct investment in shares on the part of Italian households remains at high levels

The Italian equity market continues to be heavily retail-oriented. Since 1999, this category of investors has held more than 25% of the Italian market capitalisation, a high level, although slightly below the maximum peaks recorded in 2000.

The phenomenon of direct investment in shares has long assumed a special importance. The changes in the macroeconomic situation profoundly modified the asset allocation of Italian households towards the end of the Nineties, in favour of increased investment in shares; the technological evolution made it possible to satisfy a latent demand for autonomy during the trading phase, increasing the number of retail investors who operate online directly on the markets; with specific reference to Italy, a microstructure that facilitates the direct access of end investors to the markets has helped to make the Italian online market one of the most active in the world.

Given the importance of this demand share, during the course of 2004 Borsa Italiana looked into the subject by way of two surveys dedicated respectively to retail investors in listed shares and, among these, those who operate on a non-occasional basis via the online channel.

RETAIL INVESTORS IN ITALIAN LISTED SHARES

According to the surveys carried out by Borsa Italiana, there are approximately 3 million households, representing 14% of the Italian households, that directly invest in Italian listed shares, i.e. that, during the period 2001-2003, held, purchased or sold them directly. These figures are high, however by international comparison they suggest the existence of future potential for greater diffusion of shareholding. In France 16.0% of the population directly holds shares, 22.0% in the United Kingdom, 23.9% of households in the United States.

In Italy there are 3 million households investing in Italian listed shares, representing 14.1% of Italian households

At the end of 2003, listed shares (domestic and foreign) accounted for 7.4% of the financial assets of Italian households and a further 3.7% was held through equity mutual funds. Investment in shares on the part of Italian households, to a much greater extent than in other countries, takes place directly.

The period considered (2001-2003) covers a phase of the economic and financial cycle marked by extraordinarily significant events that had a profound effect on the behaviour of Italian retail investors. Compared to 2001, there has been an increase in the number of households concerned about their current financial situation (from 14.2% to 27.7%) and their future financial condition (from 5.3% to 16.1%), while the percentage of households that managed to save has dropped (from 83.2% to 62.8%). Stock market investors tend to take fewer financial risks. The number of self-defined “conservative” investors has risen (from 55.3% to 68.8%). The structure of the portfolio has changed to reflect the perceived (and actual) levels of uncertainty, in favour of less risky assets, whose weight on the total has gone up from 45.0% to 58.1%.

However, despite the high level of uncertainty, this does not mean that investors are moving away from direct equity investment. Approximately 85% of interviewees stated that past events have given rise to greater caution, but half of them have not altered their long-term attitude towards investing in stocks. Only 1 investor in 20 declares that he/she will never invest in stocks again.

At the end of 2003, direct stock market investment absorbed approximately a quarter of the total assets of investors in shares, and as much as a third if equity funds are also included. Almost 40% of the portfolio is invested in liquid assets; Government securities and corporate bonds account for approximately 20% (directly or through funds). Over 7% is allocated to insurance and pension products. Compared to 2001, there has been a shift towards less risky or capital guaranteed investment products.

Equity portfolios in Italy predominantly contain blue chips, held by 90.3% of households investing in shares

Equity portfolios in Italy, predominantly containing blue chips shares, have a high concentration: 51.0% of interviewees have just one stock and almost 24% have two stocks. Almost 40% purchased the shares through privatisations, while about 6% currently hold shares purchased during the initial public offerings of private companies.

Trading activity of equity investors is low and has gone down since 2001. There has been an increase in the number of persons who have not performed a single trade during the previous twelve months (from 26.6% to 66.9%) and a decline in the average number of trades per year for those who were active (from 18.1 to 12.4).

Over a third of those who invest in shares make independent decisions as to how to invest. This percentage has dropped compared to 2001 (from 45.7% to 34.8%), although the move is not so much towards complete delegation, but rather towards a situation where investors decide and then consult their broker for confirmation (from 23.0% to 38.2%).

Banks are the main point of reference for investment decisions and were mentioned by 95.0% of interviewees: 76.4% traditional banks, 29.9% financial advisors, 8.7% online channels. Among the sources of information there is a significant increase in personal relationships, mentioned by 77.9% of interviewees compared to 60.0% in 2001. These concern bank employees (41.5%), family and acquaintances (34.7%), financial advisors (30.0%). Consultation of all the other sources of information has decreased compared to the previous survey; 53.3% of interviewees mentioned the printed media against 65.2% in 2001. 30.0% use TV/radio as a source of information (34.9% in 2001), especially teletext (16.3%), and 15.3% use the Internet (20.0%).
The type of information sought concerns advice from experts or acquaintances (52.4%) and to a lesser extent editorials or articles on company performance (31.0%), price charts (21.3%), macroeconomic forecasts (17.0%), company financial statements (12.6%). 9.2% mentioned analyst reports.

The survey shows that there is still significant room for improving the level of financial awareness of equity investors. Uncertainty regarding some of the basic notions is commonly observed and only 3.0% of investors took courses in finance-related subjects. Lastly, only 40.4% claim to know the difference between listed and unlisted instruments.

ONLINE TRADERS

Online trading is a recent phenomenon, in rapid evolution, whose growth potential also takes into account the anticipated Internet diffusion scenarios. Online traders, defined as those persons who use the online channel for the trading of financial instruments on a non-occasional basis (at least two trades per month), are a population of just over 100 thousand people, including 10 thousand who perform operations on a daily basis (day and heavy traders).

Online traders differ substantially from retail investors as a whole due to their approach to investment and the high number of transactions carried out. They operate in full decisional autonomy (78.0%) and only occasionally seek professional advice in the investment process (4.0%). They are investors who assign to the investments carried out online a shorter timing horizon compared to the other forms of savings allocation (51.0%). They have a good level of financial sophistication: 44.0% have attended at least one training course on financial topics and 51.5% dedicate over ten hours per week to activities connected with the management of their financial operations. Their education and level of income is medium to high: 40.0% are university graduates and 58.5% have a family income of above 2,500 euro per month (against respectively 6.7% and 20.9% of the Italian population).

Italian shares are negotiated by all online traders and derivative instruments by half of them

The online trader portfolio covers a wide selection of listed financial instruments; domestic shares and blue chips in particular are included in almost all portfolios. 44.5% include shares listed on foreign stock exchanges and in 53.0% of cases, derivative instruments. Overall, the portfolio shows a notable diversification: online traders also hold Government securities, corporate bonds, asset management products and pension and insurance products.

Trading activity is intense. 42.0% of interviewees claimed they carried out online trading every day or almost, 35.5% at least once a week and 22.5% at least once every 15 days. This activity is concentrated on shares and derivatives: overall the most traded instruments are those of the IDEM (futures and options) and Italian shares, followed by foreign shares, securitised derivatives and ETFs. The diffusion of foreign shares and derivatives is highest with day & heavy traders (54.1% and 62.2%); moreover, of the derivatives, they prefer IDEM products (69.6%) to securitised derivatives, which are more common with less active traders (81.7%).
Trading frequency appears to depend less on the socio-demographic characteristics of the investors than on behavioural aspects: the decisional autonomy and, albeit to a less marked extent, the level of sophistication are positively correlated to the number of trades carried out. The sophistication of the investor, together with the exclusive use of the online channel, also explain the decision to trade in derivative instruments. Only for futures and options does it become important to also use specialised intermediaries and more than one online service provider.

In 61.0% of cases the online channel appears exclusive

Where the online channel is supported by others, these are traditional banks (24.5%), bank financial advisors (11.0%) or investment firms (10.0%). By category of product, online channel penetration is concentrated on the financial instruments most likely to enhance the benefits of operating in real time. For shares, derivatives and ETFs the online channel is used in more than 80% of cases (96.4% for Italian shares); on the other hand, the percentage drops to about 50% for Government securities and bonds and to 35% for mutual funds.

As regards the type of online intermediary used, in 52.0% of cases these are brokers who, due to their type of offer or predominant distribution channel, can be defined as specialised. Among the needs considered important in the choice of intermediary, viewed as primary are those associated with the technological reliability of the platform (93.2%) and the continuous availability of the financial instrument listings (91.9%), followed by elements tied to efficiency (costs, speed and easy use of the platform). Day & heavy traders make more frequent use of specialised brokers (60.8% compared to 46.8% of active online traders) and assign particular importance to operating facilities and education opportunities.

The information consulted concerns direct monitoring of investments (price and indices charts in 72.5% of cases, technical analyses in 65.0%, financial statements of listed companies in 30.0%) or contributions providing contextual scenarios (economic in 66.0% or corporate in 67.5% of cases); only 14.5% use the advice of an expert/acquaintance. Among the information channels there is a massive predominance of Internet (83.5%). 66.0% of interviewees also use traditional sources and above all specialised newspapers (54.3%). On the other hand there is an almost total absence of personal relationship information sources; bank clerks and accountants were never mentioned and only 1.5% of interviewees mentioned financial advisors.