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Incumbent and challenger digital brokers are targeting teens

Article

What we've noticed: The democratization of stock trading has hit minors, presenting opportunities and challenges for digital brokers.

Incumbent and fintechs alike are catching on: Digital brokers' forays into investing for teenagers creates a broad new customer segment to target.

- In January, money management app for kids **Greenlight**, which has more than **2 million** users, added stock trading.
- **Fidelity Investments** announced in May it added no-fee stock and ETF investing accounts for **13** to **17** year-olds as it attracts a younger customer base: It added **1.6 million** new accounts for retail investors **35** and younger in Q1, a **222%** increase year over year.

It's not without its risks: Market players are targeting inexperienced minors at a time when regulators are ramping up consumer protections.

Millennials and older Gen Zers are known for making investment decisions based on trends on social media platforms like Reddit rather than weighing risks and evaluating fundamentals. This makes them more active traders, which means more revenues for commission-free brokers like **Robinhood** that make money on trading volume, but frequent trading is traditionally riskier than passive investing strategies and often leads to more investment harm.

Brokers introducing investment products for teenagers are inviting a whole new level of regulatory scrutiny. In the UK, the **Financial Conduct Authority** found that younger consumers are getting involved in higher-risk investments without understanding the dangers and is working to better protect these consumers from investment harm. And in the US, **FINRA** handed Robinhood a **$70 million** fine due in part due to failing to protect inexperienced users from complex trades. Minors, presumably even less experienced, would likely require an even higher duty of care from brokers to avoid backlash from regulators that have already criticized "gamified" aspects of investing with digital brokers.

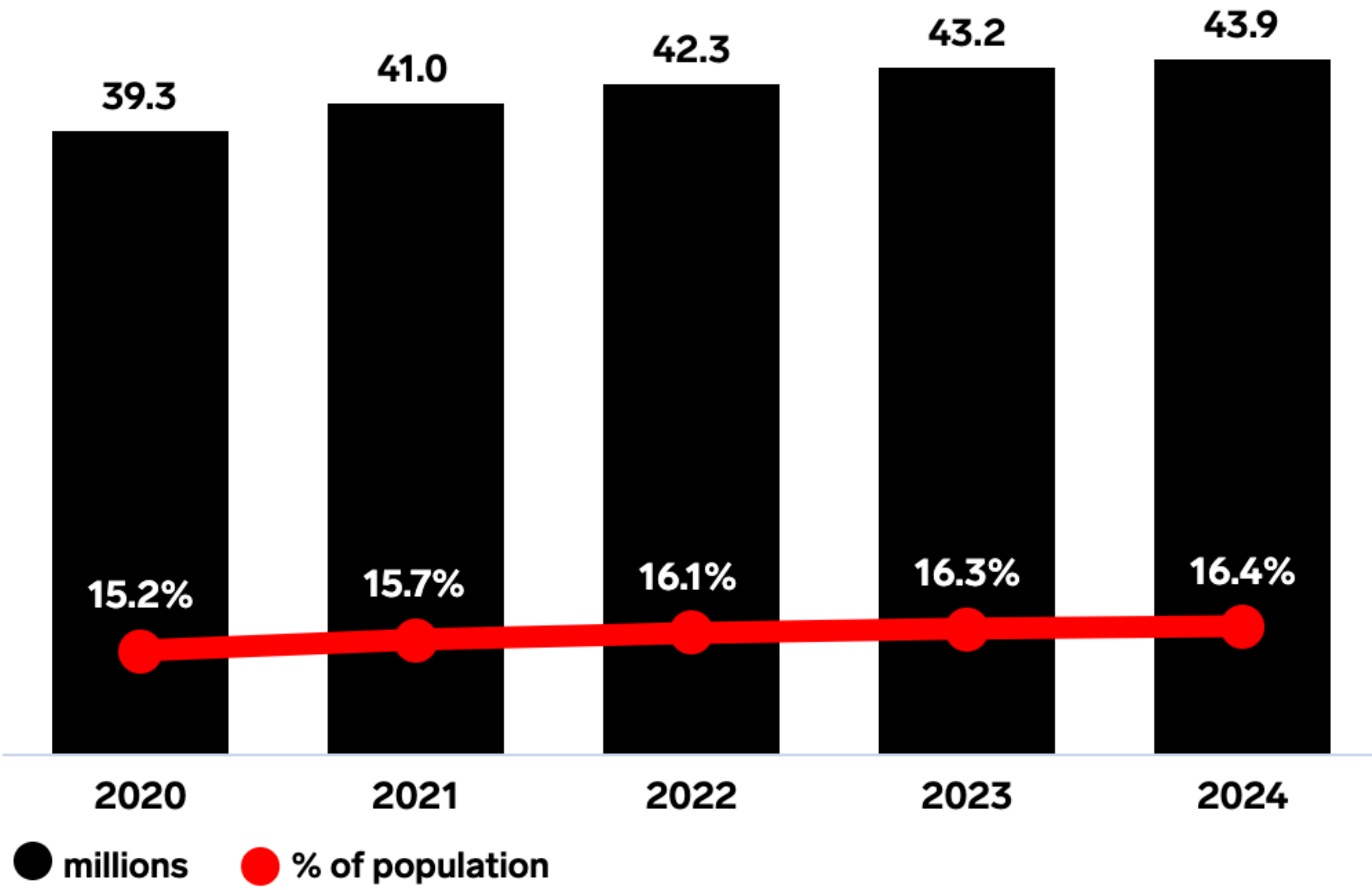
Looking ahead: Expect more digital brokers to add trading services for minors despite the choppy regulatory waters.

More market players will weigh the heightened regulatory pressures with the revenue-generating opportunity and launch their own teen investing accounts to capitalize on the barely tapped growth area. Fidelity has already taken the plunge, and as we saw with the race to the bottom on commission fees, the move will push competitors to catch up.

They will likely start with a slim offering with relatively safe assets like traditional stocks and ETFs—as Fidelity did—perhaps with a focus on sustainable ESG-focused investments, which are popular among younger investors.

Digital Brokerage Users

US, 2020-2024



Source: eMarketer, August 2020

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