

UNDER THE SPOTLIGHT: Single stock trading booms

Stock tracker ETPs: Fractional
trading democratised

Leverage Shares

How coronavirus changed
financial markets forever

Tom Eckett, Editor of ETF Stream

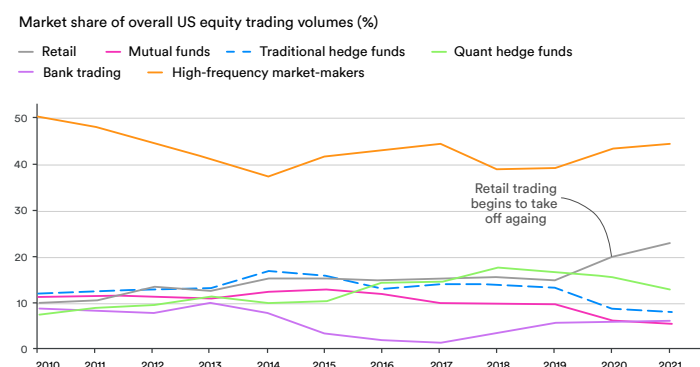
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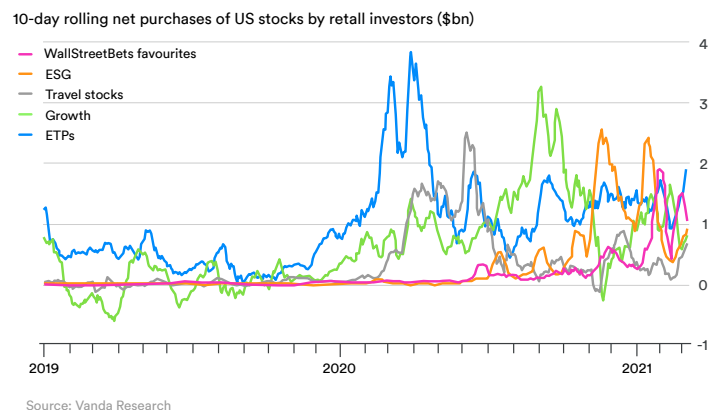
Stock tracker ETPs: Fractional trading democratised

The rise of the Robinhood investor? Leverage Shares analyses the role of stock tracker ETPs – or 1x ETPs – as retail trading volumes soar.

Retail investors have steadily become more and more prominent in the investment landscape. Once a middling participant category – often ranking behind mutual funds and banks – retail investors in the US account for higher trading volumes than all others except high-frequency traders since 2020.

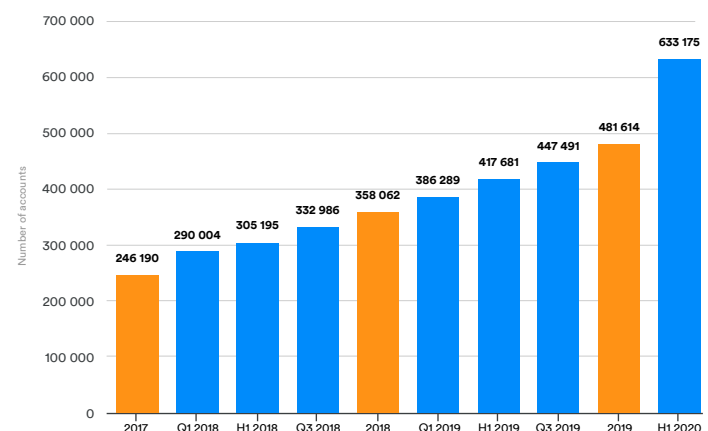
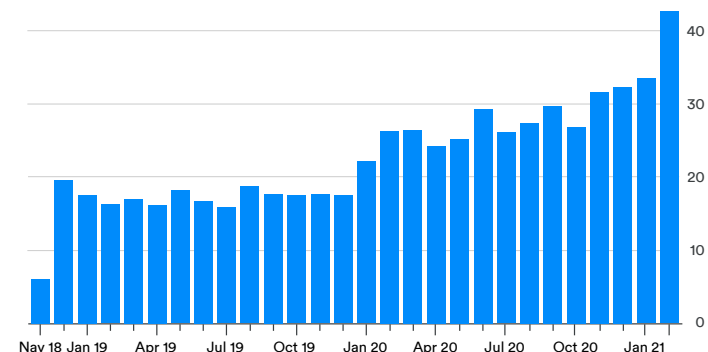


While news-watchers might attribute this bump to the GameStop imbroglio which pitted the common man versus the hedge funds, actual data suggest something more interesting: Vanda Research – an independent research company that provides tactical macro and strategic investment analysis to institutional investors – reports that US retail investors have focused on growth stocks, ETFs and ESG stocks with almost the same intensity as seen in “meme stocks” during the GME showdown.

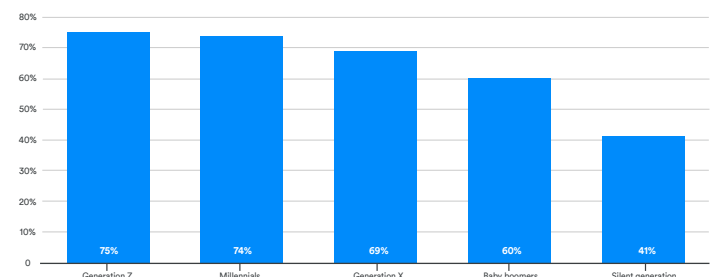


By no means is this limited to just stocks: Financial Times estimates that increased retail investor sentiment has been instrumental in driving up equity options volumes all through 2020 and into 2021.

Average daily volume of US equity options traded (millions of contracts)

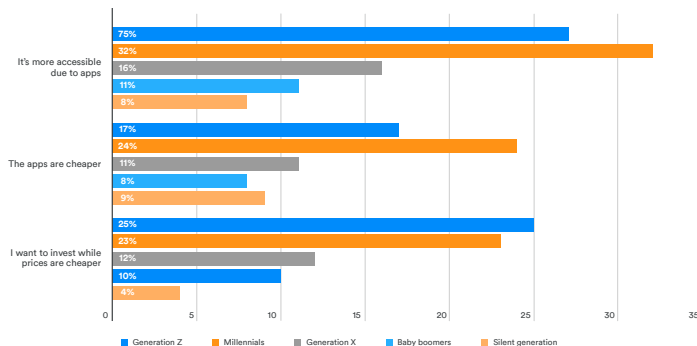


Analysing European sentiment as a whole is slightly more difficult, given the wide distribution of geographies/currencies/exchanges. However, some extrapolations can be made to drive home the idea that this is, by no means, limited only to the US. Statista estimates that popular online Dutch broker DeGiro – with a presence in 18 European countries – has registered a nearly 268% increase in online accounts from 2017 to the first half of 2020.



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A survey done in May 2020 by UK-based comparison site Finder revealed a similarly “aggressive” attitude prevalent among UK-based respondents. The question “Who would invest during or after the pandemic?” found Generation Z, Millennials and Generation X leading in their intentions to invest into the markets.



Source: finder.com

This trend is not very different from the US. The average Robinhood customer, for example, is 31 years old, while the average customer at Charles Schwab – a traditional full-service brokerage – is around 50.

To probe the reasons behind wanting to invest, over a quarter of both Generation Z and Millennials planning to invest said that the market crash in early 2020 made them more likely to invest over the next 12 months. A strong reason lay in the ease of using trading apps and the low costs charged by these apps – predominantly discount brokers.

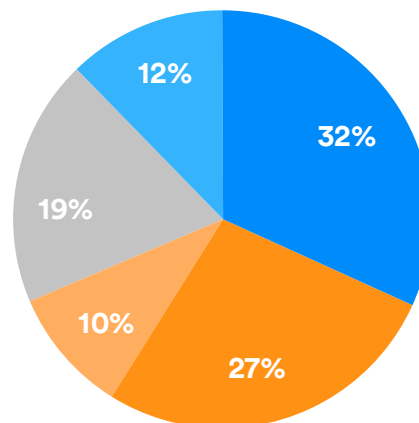
Now, despite these transatlantic trends seen among younger investors, there is a substantial difference in AUM and investor account sizes when it comes to discount brokers and full-service brokerage firms. In the US, comparing Robinhood as an example of the former versus the likes of Charles Schwab, et al representing the latter shows these differences in stark terms.

	Assets Under Management	Number of Accounts (est.)	Average Account Size
Robinhood	\$20 billion	13 million	\$3,500
E-Trade	\$600 billion	5.2 million	\$100,000
TD Ameritrade	\$1.3 trillion	13 million	\$110,000
Charles Schwab	\$3.8 trillion	29.6 million	\$240,000

The disparity between the average balance for a Generation Z/Millennial/Generation X investor using a discount broker app and the typical investor using a full-service brokerage firm anywhere in Europe will likely be of a similar magnitude.

One of the barriers towards market participation and enfranchisement for today's young retail investors is thus: Alphabet (GOOG) is over \$2,500, Tesla (TSLA) is over \$600 and Amazon (AMZN) is north of \$3,000. At these prices, it is very difficult for them to build a portfolio of leading stocks without a significant outlay of funds.

The growth trajectory of leading US-listed stocks is of particular interest to today's young investors. In a survey conducted by Leverage Shares in early May 2021 on the



- Can't Buy US-domiciled ETPs
- Not enough multi-currency offerings (stocks, ETPs/ETFs, etc)
- [UK Investors] Can't hold most ADRs in an ISA account
- [UK Investors] Can't buy crypto derivatives
- Other

question of the biggest challenges faced by international investors, survey respondents selected an ‘inability to purchase US-domiciled ETPs’ and the ‘non-availability of multi-currency products’ as the primary barriers they face. Hence, to provide international investors (i.e. non-US investors) of all wallet sizes with the means and opportunity to profit from the performance of some of the top-performing US-domiciled stocks today, Leverage Shares has introduced into Europe a new suite of products: the Stock Tracker ETPs.

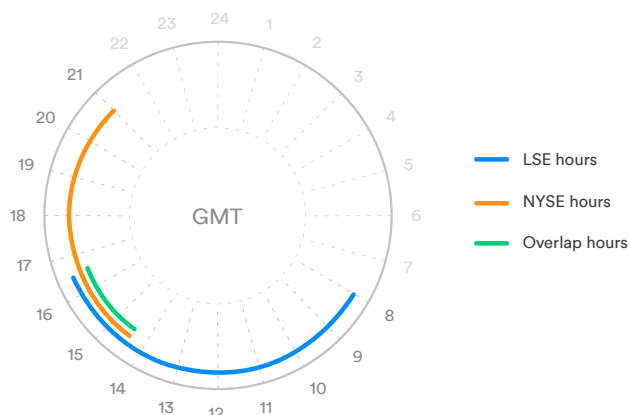
What are stock tracker ETPs?

Stock Tracker ETPs a.k.a. “1x ETPs” give investors 1:1 exposure to the underlying stocks being tracked. While technically similar to “pure beta” ETFs, there is a key difference here: while “pure beta” ETFs offer a 1:1 exposure to a basket of stocks, Leverage Shares’ 1x ETPs offer exposure to a single company’s stock. When there is a change in the underlying stock’s value, the investor can expect the 1x ETP’s price to move in the same direction and with a similar magnitude.

Price and currency choice advantages

When it comes to the stocks mentioned earlier (as well many other top stocks the stock trackers cover), the price is the biggest barrier to investors looking to cash in their performance. This problem is handily covered by these Tracker ETPs: they start at \$5 (and its equivalent value in pound sterling and euro). To be precise, for as little as \$5, an investor can lock into the performance of these stocks and earn returns that are almost exactly similar to what owning stock would have entailed.

Another issue that irks investors looking to buy high-performance stocks is that if they are denominated in US dollars and the investor trades in a European currency, the latter will likely be hit with FX conversion fees. Leverage



Shares' 1x ETPs are denominated in three currencies – US dollars, Euros as well as sterling – to give investors increased flexibility in investment choices.

Trading hours advantage

Another advantage of the stock trackers has is that, unlike their underlying US-listed stocks, these products are traded during European exchange hours. There is a limited overlap between US and European exchange hours:

Outside of the overlap hours, the Stock Trackers will still remain tradable during the hours the underlying stock isn't. This gives investors time to factor in after-hours news regarding the underlying stock into their investing decision or get exposure to US stocks before US markets open for trading.

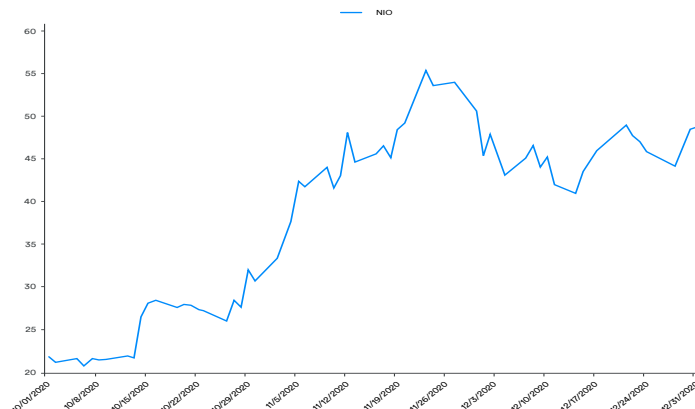
Potential tax advantage

Many European jurisdictions offer significant tax advantages through special measures. Let us take the UK as an example. About 13.5% of all UK shares were held by individuals in 2019. However, only 3% of the population (about 2.2 million) were subscribed to a stock and shares Individual Savings Account (ISA), which offers significant tax advantages. Investors also held onto their shares for about 0.8 years on average before selling them.

The Finder survey estimated that over 33% of British respondents owned stocks, with a similar Financial Times survey estimating a more conservative 15%. In either event, the survey implies that the number of UK investors has increased or is likely to increase. This makes the case for holding investments in an ISA account all the more relevant.

To illustrate the relative advantage of stock and shares ISAs, let us consider a stock that has been very popular with European investors in 2020: NIO. NIO had an explosive trajectory all through 2020, rising nearly 1,210% in US\$ value by the end of the year. From 1 October till the end of 2020, NIO had a rocky ascent until it ended 124% up.

Assume a UK-based investor, Joanne, with an annual income of £60,000. For this income level, the Capital Gains Tax (CGT) is set at 20% with a capital gains allowance of £12,300 per year.



Joanne makes only one investment: purchasing 1,000 shares of NIO on 1 October via her share dealing account and holds on to it until the end of the year. After the allowance and taxes, her investment's performance in sterling terms is about 103%.

On the other hand, if Joanne had held this investment in a stock and shares Individual Savings Account (ISA), her gains will not be subjected to CGT. However, American Depositary Receipts (ADRs) like NIO can't be held in an ISA. Well, the Leverage Shares 1x ETP can in fact be held in an ISA (as well as a SIPP). When trading these 1x ETPs, the only fee Joanne would incur would be an annual management fee of 0.15%.

	ADRs, Dealing Account	1x \$ ETP, ISA
Units Held	1,000	4,250
Initial Investment	£16,884	£16,488
Capital Gains Allowance Used	£12,300	£0
Capital Gains Tax	£1,293	£0
After-Tax Performance	103%	109%

If Joanne had purchased the 1x NIO Tracker ETP* for roughly the same initial amount, her investment performance would have been 109% with no tax liability or impact on capital gains allowance at all. In fact, it would have gained 109% at any level of investment. This also gives Joanne more flexibility to use the allowance for other equity investments.

Some of the most popular stocks among European retail investors in recent times – in addition to the likes of Tesla, Amazon and Netflix – have been US-listed Chinese stocks. Leverage Shares offers 1x ETPs for these fast-growing stocks as well:

Physically-backed products

Investors are doubtless of the latest disaster with the hedge fund Archegos which recently cost leading investment

	Tracker ETP	Tesla	Amazon	NIO	Baidu	JD.com	Pinduoduo	Set Limited
Current price	\$5	\$550+	\$3200+	\$40+	\$200+	\$70+	\$140+	\$260+
Currency	GBP,USD,EUR	USD	USD	USD	USD	USD	USD	USD
ISA eligible	✓	✓	✓	✗	✗	✗	✗	✗
EU trading hours	✓	✗	✗	✗	✗	✗	✗	✗
No W-BEN	✓	✗	✗	✓	✓	✓	✓	✓

*Table makes reference to US-traded equities / ADRs

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ETP Name	ISIN	London Stock Exchange			Euronext Amsterdam	Euronext Paris
		GBP	USD	EUR	EUR	EUR
LS 1x NIO Tracker ETP	XS2337093871	NIO	1NIO	NIO1	NIO	1NIO
LS 1x Baidu Tracker ETP	XS2337097518	BIDU	1BID	BID1	BIDU	1BID
LS 1x JD.com Tracker ETP	XS2337100676	JD1X	1JD	JDX1	JD1X	1JD
LS 1x Pinduoduo Tracker ETP	XS2337093954	PDD	1PDD	PDD1	PDD	1PDD
LS 1x Sea Tracker ETP	XS2337094093	SE1X	1SE	SE1	SE1X	1SE
LS 1x Tesla Tracker ETP	XS2337093798	TSLA	1TSL	TSL1	TSLA	1TSL
LS 1x Shopify Tracker ETP	XS2337094259	SHFY	1SHO	SHP1	SHFY	1SHO
LS 1x Plug Power Tracker ETP	XS2337100759	PLUG	1PLU	PLU1	PLUG	1PLU
LS 1x Palantir Tracker ETP	XS2337092980	PLTR	1PLT	PLT1	PLTR	1PLT
LS 1x Netflix Tracker ETP	XS2337098839	NFLX	1NFL	NFL1	NFLX	1NFL
LS 1x Microsoft Tracker ETP	XS2337100320	MSFT	1MSF	MSF1	MSFT	1MSF
LS 1x Facebook Tracker ETP	XS2337100080	FB1X	1FB	FB1	FB1X	1FB
LS 1x Coinbase Tracker ETP	XS2338070282	COIB	1COI	COI1	COIB	1COI
LS 1x Apple Tracker ETP	XS2337099563	AAPL	1AAP	AAP1	AAPL	1AAP
LS 1x Amazon Tracker ETP	XS2337104231	AMZN	1AMZ	AMZ1	AMZN	1AMZ
LS 1x Alphabet Tracker ETP	XS2337100163	GOOG	1GOO	GOO1	GOOG	1GOO
LS 1x Airbnb Tracker ETP	XS2337098086	ABNB	1ABN	ABN1	ABNB	1ABN

banks billions of dollars when it went under. Archegos bought derivatives known as total return swaps from the banks' prime brokerage desks to bet on stock price moves without owning the securities. When a stock price slide on ViacomCBS impacted the fund's portfolio value, Archegos suffered a series of margin calls and tumbles which cost the issuing banks billions.

This scenario cannot happen with these products since Leverage Shares' 1x ETPs are 100% physically backed. This means that for every tracker ETP an investor holds, the issuer physically purchases the stock backing it. This ensures that the product the investor owns has "longevity" and the inherent credit risk present in every similar competing product is negated.

Conclusion

Stock tracker ETPs will be a very useful addition to an investor's portfolio: its low cost promotes diversification; its range of currency options enables making a currency play (if the investor chooses) and its European listing enables strong tax benefits. It also serves to democratise the marketplace by enabling retail investors with modest capital availability to successfully build a well-diversified portfolio comprising of today's most in-demand stocks.

For a complete list and additional info about the Stock Tracker ETPs currently available from Leverage Shares, investors can visit <https://leverageshares.com/en/stock-trackers/>



Sandeep Rao

Research
Leverage Shares

How coronavirus changed financial markets forever

Tom Eckett, editor at ETF Stream, examines the dramatic increase in retail investor activity over the past 12 months, their behaviours and the impact they are having on financial markets.

The rise of retail investors – or the Robinhood effect – has been the biggest transformation in financial markets since the coronavirus pandemic sent shockwaves through the global economy in March 2020 with market access becoming increasingly democratised and social media providing a voice for this army of traders to connect through the internet.

There is no doubt the potential impact of retail investors is on the rise. According to data from Bloomberg Intelligence, retail investor trading volumes on US equities jumped above 20% in 2021, far ahead of hedge funds and mutual funds which accounted for 10% and 6%, respectively.

A further signal to the growing role of retail investors comes from the Bank for International Settlements (BIS) which found the amount of debt in US brokerage accounts – one of the main tools investors have to manage their assets – soared to \$750bn in December 2020, the highest level on record since 2017, both in inflation-adjusted terms and as a share of GDP.

The key driving force behind this phenomenon has been coronavirus with the unprecedented lockdown combined

with the rapid sell-off in markets last March providing investors with the perfect opportunity to dip their toes into the US stock market.

Enabling this surge in trading has been the brokerage platforms such as Robinhood which saw an additional three million accounts created in Q1 2020 and currently boasts a total of 13 million users on its platform.

These brokerage platforms have democratised investing by enabling amateur traders to buy and sell shares for free with many areas of the market previously out of reach for this type of investor.

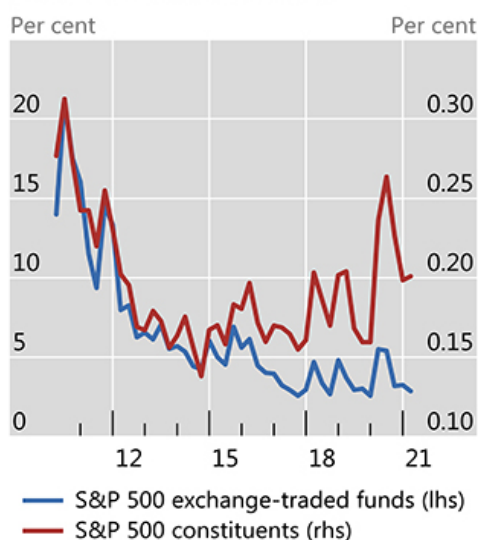
With the ability to access stocks now at their fingertips, retail investors started utilising this new-found power they had. Through the use of social media sites such as Reddit, investors discussed views on the market and began targeting certain stocks and assets.

As Oktay Kavrak, product strategy at Leverage Shares, said: “The gamification of trading and the added influence of social media has turned traders into speculators and risk-seeking new entrants to gamblers.

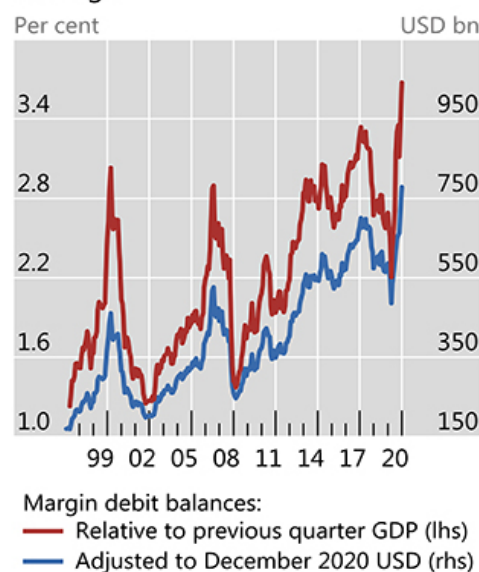
“There is also an ideological element to it – ‘sticking it to

The influence of retail investors continues to increase

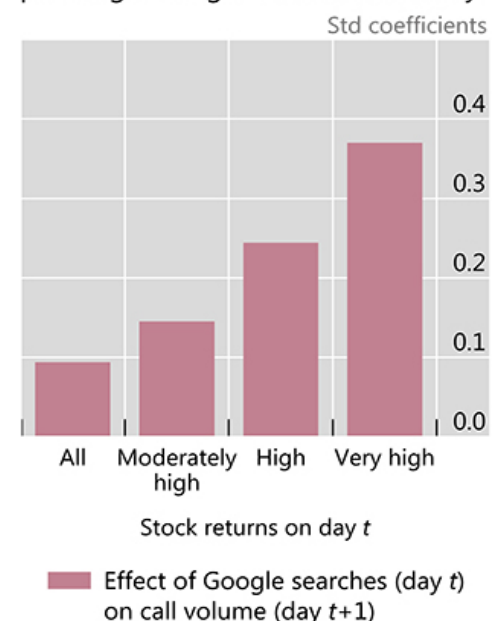
Trading activity kept shifting from funds to individual stocks¹



Retail investors employed rising leverage



Web searches lead option volume, pointing to heightened retail activity²



Source: Bank For International Settlements



the suits’ – where traders try to undermine the Wall Street by collectively pumping stocks with a high short interest.”

Video games retailer GameStop was the first target for this army of investors – a company that had been heavily shorted by Wall Street investors was seen as the perfect stock to strike back against big banks for their hand in the Global Financial Crisis. From the beginning of last December to the high on 27 January, the stock surged as much as 2,099% forcing short sellers to scurry from their positions.

Attempts were made on the silver market and other stocks such as AMC have reaped the benefits of moves made by WallStreetBets and the like to corner market but for investors jumping on the bandwagon late on, they are at risk of being caught in the social media hype.

“During the pandemic year of 2020 and 2021, retail investors have access to easy trading, more funding, and more information from social media platforms such as Reddit,” said Danqi Hu of Northwestern University and co-author of *The Rise of Reddit: How Social Media Affects Retail Investors and Short-sellers’ Roles in Price Discovery*.

Kavrak added: “The pandemic-led digital transformation has given birth to the modern retail investor. The army of new market participants is tech savvy, armed with the latest information and glued to social media. They can no longer be overlooked, now making up 20% of stock trading volume.”

So how are financial companies reacting? In the exchange-traded product (ETP) space, one recent development has been the launch of stock tracker ETPs

that offer 1:1 exposure to well-known companies such as Amazon, Tesla and Baidu.

This is the further democratisation of investing as these ETPs are priced at \$5 a share instead of the high prices of some stocks such as Amazon which is currently trading at \$3,489.

“Fragmented markets in Europe mean investors still face barriers like FX fees and lack of fractional trading when buying their favourite stocks,” Kavrak concluded. “Our stock tracker ETPs remove yet another barrier in their financial journey to building wealth.”

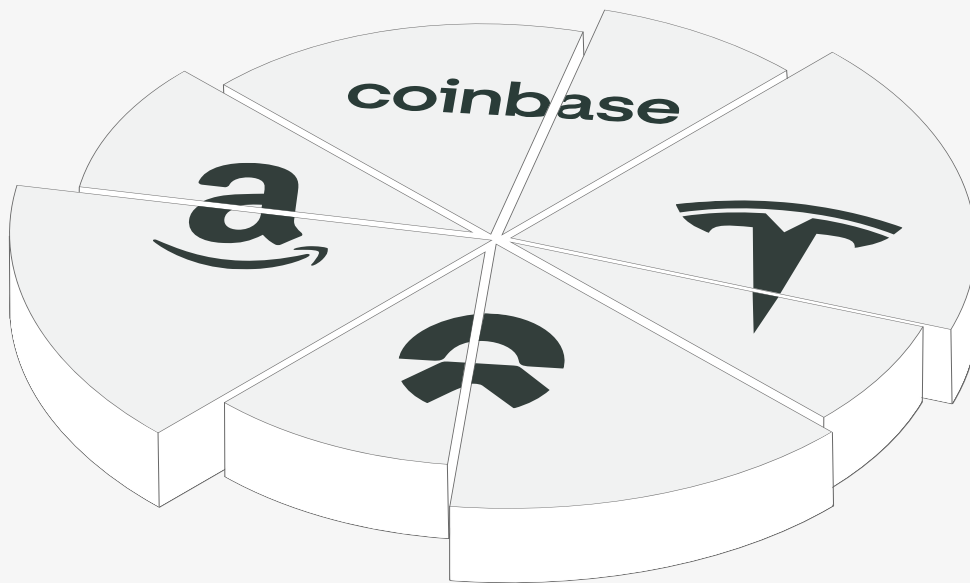


Tom Eckett

Editor

ETF Stream

Trade with More Conviction TM

**Disclaimer:**

The value of an investment in ETPs may go down as well as up and past performance is not a reliable indicator of future performance. Trading in ETPs may not be suitable for all types of investors as they carry a high degree of risk. You may lose all of your initial investment. Only speculate with money you can afford to lose. Changes in exchange rates may also cause your investment to go up or down in value. Tax laws may be subject to change. Please ensure that you fully understand the risks involved. If in any doubt, please seek independent financial advice. Investors should refer to the section entitled “Risk Factors” in the relevant prospectus for further details of these and other risks associated with an investment in the securities offered by the Issuer.