

STOCKS AND SHARES INVESTMENT FOR A NOVICE

White Paper V 1.0

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How easy is it for a novice investor to invest in stocks and shares?

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01

INTRODUCTION

In a world of low-interest rates many new investors will use a stocks and shares ISA to get tax-free returns. We explore the digital online experience for a novice investor with a moderate pot of money as they select and onboard with providers from a Bank, DIY Investment Platform and Robo-Advisor.

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1 INTRODUCTION

The pandemic is changing money habits for people as they use their time in lockdown to better understand their financial situation to budget, save and invest. With emergency funds set aside, those with any additional savings are looking at long term investment.

Investment is big business and even with a brutal stock market crash in March and the unexpected rebound, many Brits feel it is a good time to invest. The COVID-19 crisis has seen most people housebound and purchasing is almost exclusively online even when it comes to our finances as only **9% of the UK population use a financial advisor⁽¹⁾**.

In times of crisis, it is hard to know which way is up and that is especially true of investing. Investing can be simple and more rewarding than holding cash but for a person that has some funds to invest what does this mean in reality?

Money left in a savings account will earn next to nothing so investing into the stock market could potentially see consumers earn more for their cash. A **Stocks and Shares ISA** is a common investment starting point for anyone with funds to invest and these products are readily accessible from a multitude of providers.

This paper looks at my online experience as a **Novice Investor** as I go through the selection process and account opening using three different online channels. Using a high street bank, an investment platform, and a robo-adviser I explored on a desktop, how easy it is to open a stocks and shares ISA with £10,000.

Using the experience to compare providers I share my findings to understand:-

What kind of experience is it for an investor that is starting their first online investment journey?

How straightforward is it for the beginner investor to select the appropriate provider and investment strategy product?

What constitutes good guidance and support for the novice investor to give them trust and confidence in their selection?

How easy is it for a customer to onboard and open an account?



2.2 million people in the UK were subscribed to a Stocks & Shares ISA account in 2019

(2) Office for National Statistics

1.1 The Novice Investor

Novice investors can be divided into two categories; the **first-time** novice (those that intend to invest again) and **one-time** novice (who do not intend to invest again).

Not all novice investors are created equally with very different objectives and at varying stages of their life. Novice investors' investment experience and financial knowledge will vary significantly.

Many beginners are daunted by the investment market and that is likely a combination of lack of understanding, too much choice and at its core, **it is a risk.**

The principle of investing is simple, and the messaging is clear, if you take a gamble with your money, there is no guarantee that you make money or get back what you invest.



*The average Stocks & Shares
ISA account is worth £27,000*

(3) figures for 2018-19 HMRC Gov.UK

1.2 Comparison Sites

Novice investors may find it challenging to choose among the hundreds of different investment strategies. Before even deciding on an investment strategy the first step of setting up a stocks and shares ISA is to choose a platform in which to invest. The internet can offer lots of advice and hints and tips, but the information available is vast.

Comparison sites play a large part in helping consumers to whittle down their options, make informed choices through **Best Buy Tables** with **Expert Industry Opinion** and **Customer Reviews** to help them decide. Due to the sheer volume of stocks and shares ISA providers out there it can be a real headache for many people, but these sites aim to showcase available products in an easy to understand format.

Comparison of fees and charges is where these sites come into their own. Unlike a cash ISA, stocks and shares ISAs carry fees, those set by the investment platform and those levied by individual fund managers. Fees matter because they will apply regardless of whether the investment performs well or not.

Charging structures and fees can get complicated not least for the different types of fees that customers will incur. It takes a diligent investor to be able to compare fees across all the providers, taking into consideration account fees, trading fees, fund custody charges and navigate some charging structures that may offset. For example, where subscription models offset monthly fees in exchange for dealing fees.

The size of wealth being invested will make a difference to whether it makes sense to invest with a provider and dependent upon preference, some people will accept higher fees for the tools and services on offer. There is a lot to consider.

It is important to note that some providers will be affiliated to comparison sites who earn commission when customers click onto the listing or go on to purchase. These paid partnerships can elevate some providers in the rankings.



1.3 Choice of three

High Street Bank

With so many investment choices, a natural route for many novice investors is to check with their bank. Banks have come a long way from their reputation of flogging us complex and unsuitable products and they still have influence over us when it comes to financial products. So, it is inevitable that many people will consider choosing their bank's investment services too and research shows **31% of people will approach their bank for help with finances.**⁽⁴⁾

Alongside standard consumer banking services, banks will offer investment services to their customers. These investment services primarily target their high-net-worth individuals and a novice investor may not be actively approached to take up these services, it does not mean they are not available.

DIY Investment Platform

Not that long ago the old school way of managing your investments usually meant contacting a fund manager or stockbroker directly to buy and sell your investments. This is usually time consuming, involves a lot of customer/broker contact, paperwork, and a hefty commission to boot.

Since those clunky days of true do-it-yourself investing, DIY Investment Platforms have delivered a revolution, offering easy ways to buy and sell investments online. Often referred to as fund supermarkets, a DIY investment platform allows consumers to purchase a range of products off the shelf. As an online admin hub, customers can buy and sell a range of investments within the wider investment markets with relative ease.

Robo-Advisor

Entering the UK fully only in the last decade and part of a growing market, robo-advisors offer an alternative to many investors. As online investment platforms that provide access to low cost, diversified investment portfolios and partial advice. **Robo-advisors hold 2% of the market share of the 14.5 million adults in the UK that hold a risk-based investment product**⁽⁵⁾.

Their all in one investment platform takes investors through an automated investment journey using algorithms and variables and risk tolerance to offer a suitable assembly of investments. Less confident investors will benefit from their services as they will pick the individual investments and manage the investments on an ongoing basis. They do this according to investment strategy determined by the results of the survey and underlying proprietary software.

This is not a like-for-like substitute for taking advice from a financial advisor as it is not full financial advice and does not consider the individual's wider financial situation.

1.4 Our selection



High street banks offer the spectrum of financial services and consumer trust in their banks have elevated in recent years. Consumers are more likely to use an established brand to invest their money into and particularly their own bank. **Barclays Bank** investment services are offered through **Barclays Smart Investor** and resembles more closely some of the characteristics of specialist investment platforms with the products and services they offer.

Appearing more frequently than any other high street bank on the comparison sites, was one of the reasons I chose to explore their stocks and shares ISA customer onboarding journey.

Big guns of DIY investment platforms and market leader, **Hargreaves Lansdown** offers the widest range of funds and is suited for customers that want to pick funds themselves. Regularly in **Best Buy** tables and multiple award winners they frequent the top five lists for both novice and experienced investors.

Hargreaves Lansdown is a popular choice for many that work within the financial services industry being well known for providing a lot of expertise and offering the widest range of investments.

**HARGREAVES
LANSDOWN**

nutmeg

Nutmeg launched in 2011 is a well-established brand and has become one of a growing band of robo-advisor propositions which have come to the market. Branded as a low-cost stock market investment service where customers can leave them to make tactical decisions and manage their portfolio.

Heavily marketed through most media channels it has become a household name. A regular at the top of comparison sites, their experience in this market has given them the opportunity to refine their offering and provide an easily accessible service.



02

THE EXPERIENCE

2.1 Risk

When considering investing in products or investment opportunities found online, it is important for all investors to understand what they are investing in, the risks associated with investing, and any regulatory protections that may apply. No more so than for those just beginning their investment journey.

No investment is without risk.

Account Opening

Throughout the digital journey for all three providers, I specifically looked at their guidance on the risk associated with investments. Each of the providers complied with regulatory requirements and flagged the minimum risk warnings **“the value of investments can fall as well as rise and you might not get back what you invest”⁽⁶⁾** but there was not much to help a customer determine what this means besides getting financial advice.

During the onboarding process the risk guidance on fund selection was minimal or absent and even with the robo-advisor survey, some of the assessment questions seemed ambiguous and open to interpretation. In many circumstances, consumers are expected to complete their own research on funds and products, including the risk they carry prior to going on an online platform, whether that is before or after onboarding.



With **Barclays** there were declarations and checks during account opening requesting personal details or additional verification details such as a mortgage account to assess the bank's risk. *Terms and Conditions, Financial Service Compensation Scheme* and *Full Privacy Notice* being the only documents highlighted during onboarding.

Hargreaves Lansdown was similarly lacking in providing information to prompt the customer to consider their own assessment of risk or understand the risk levels of their fund selection during the onboarding process. There were links to their financial advisers for anyone unsure of their investment and their *Important Investment Notes*, a text heavy page. Although the content was concise, they make it clear their service is execution only and it is the investors' responsibility to understand the risk they take in making their own choices.

**HARGREAVES
LANSDOWN**



Of course, there is a risk assessment survey for our robo-advisor to build a customer risk profile as standard. **Nutmeg's** risk profiling questionnaire uses a Likert-scale measure for the customer to select from *Strongly Disagree* to *Strongly Agree*. They tried to understand the customer's attitude to risk asking how they felt using statements such as *'I would be **happy** to risk losses to get potentially greater long-term gains'* or *'I **worry** about the instability of the stock market'*.

These questions alone seem meaningless to me and gave me no perspective particularly as a novice investor. I found it difficult to quantify financial **losses** or **gains**.

Investment Risk

There is a distinguishable difference with our selected providers. Nutmeg takes a customer through a guided journey much like I would do with an advisor whereas both Hargreaves Lansdown and Barclays took me through an unguided journey. Even so mostly absent from all three of our providers websites were any prompts, or nudges to help customers identify the **risk underlying their choices**.

They all contained articles, guides, and research within their websites and some more useful and beginner friendly than others. The onus is on the customer to delve into the information and complete their own research, assuming they had the time and inclination to look and digest the information offered.



Risk was not clearly defined with any of the three providers whether it was investors' attitudes to risk or explanations across the risk spectrum.



I found they all lacked any true examples or scenarios to help the customer understand the most important consideration when investing.



There was not enough interactive guidance on risk or dynamic nudges. I found it difficult to correlate the potential to earn and the risks of losing my money matching my own circumstances.



Nutmeg stood out by having a visible *Advice* section to speak to one of their financial advisors for restricted financial advice and the only one to use a nifty call back feature throughout their website aimed at those who are new to investing.

Each provider offered a financial advice service if a customer is unsure of suitability, but risk was not defined in any substance when using and describing terms or any useful customer scenarios or examples. Where example tables existed, they used percentages rather than monetary values to present the rise and fall or gains and losses.

As part of the fund selection, customers can view fund factsheets and use other fund researching tools which are part of the overall site. They help the customer to inform their decisions, but risk is not clearly defined. There are significant improvements needed in this area and I am not alone in my opinion. Insight from Boring Money corroborates this as ***end investors want risk to be shown to them rather than named or categorised⁽⁷⁾***.

The Financial Conduct Authority (FCA) has warned that terms such as '**cautious**', '**balanced**' or '**adventurous**' are used in different ways across platforms⁽⁸⁾. This may leave customers with the wrong idea of the risk they face.

2.2 Customer Services

Even though the internet is where almost all investment activities proceed and largely, applying and onboarding onto a new stocks and shares ISA can be completed without human contact, there are times when customer service is required.

A key part of my experience was to understand what customer service facilities were available. Where there was an **online chat** facility, I asked for guidance on understanding the risk when making investments choices.

BARCLAYS

Barclays Smart Investor site offers online chat and a telephone service for customers. FAQs were extensive as they covered all financial topics and even with the filter function, there were multiple pages of FAQs to go through. During navigation around the website an unsolicited online chat offer was given and subsequently accepted. My chat agent was able to point me to key areas including *Fund Tools* in the *Research Centre* as well as *Ready Made Funds* as a consideration for a beginner.

HARGREAVES LANSDOWN

Hargreaves Lansdown has a reputation for excellent customer telephone services but citing coronavirus these services were not available and they directed customers towards their FAQs and email contact only. There were no chat facilities on their website at the time and I was surprised and disappointed that no real time interactive support was available.

nutmeg

Nutmeg make it easy to contact their customer services representatives. Their *Contact Us* and online *Chat* button is overlaid on every page, their FAQs a manageable list to scan and their *Support Library* provided a search function for further help. My online chat with Nutmeg was instant and their chat agent answered my questions with simple explanations and supporting links to the website. I especially liked the downloadable transcript of the conversation, so the information and links were not lost.

2.3 Research and Tools

Having an easy to navigate website with research and tools to help provide investment insight or pointers is valuable and this can be crucial for novice investors. Although this will be largely down to personal preference and investment experience, ease of use and effective tools will benefit all types of investor. Evident with all our choice of three was the high number of guides and research material available and I focused on the content that would most appeal to the novice investor.

BARCLAYS

The **Barclays Research Centre** is not particularly easy to find but does provide real-time pricing and in-depth company info. It looks aesthetically clean and uncluttered and offered real-time pricing, latest market movements and an advanced search function.

Their market news and factsheet information is useful. The interactive chart looked impressive but there is an assumption the investor knows how to use it for technical analysis .

The dashboard assumes the investor knows how to navigate them easily and can interpret the output of the information given. Some tabs are greyed out and only available for existing customers.

I reviewed both their *New to Investing* and *Investing for Beginners* sections and this provided a wide range of articles from *10 Golden Rules* to *Guide to Ethical Investing* to *Understanding the Cycle of Investor Emotions*. A thorough list with valuable insight but a huge number of articles for someone to read through.

HARGREAVES LANSDOWN

Hargreaves Lansdown is known for its tools and high-quality research of which some is in-house. The comparison sites tout their tools and app as superior amongst peers but at a cost of higher pricing. Their website looks and feels more intuitive than all the others and customers can navigate their way easily and not feel lost. Even when clicking into the depths of the information it was easy to redirect back with customer led menus and categorisations. Their voice and tone are geared towards a much more sophisticated investor.

Like many of the providers some tools are only available to existing account holders, but their **Portfolio Analysis Demo** is a good taster of what their tools can do to give a detailed picture of customer's entire portfolio.

The **Learn** section of Hargreaves Lansdown has some useful guides but they require email details to enable a PDF download. Both the *Guide to Investing* and *How to Pick Shares* are glossy brochures containing great explanations, tips, and a stock market jargon buster which contains links to some of their website tools.

There is a danger that for a beginner such as myself, much of the research and tools may be left unused as the wide-ranging content was overwhelming.

nutmeg

Nutmeg's website differed by using button functions and is easily navigable for its simplicity, short menus and a layout that is more minimal compared to the others. Even so the information presented was uncomplicated and their **ISA calculator** was straightforward with easy to understand projection explanations. The tools on Nutmeg contained simple questions with clickable statements representing current knowledge level, which then displays the appropriate guidance for your selection. The guidance comes in the form of articles, financial planning tools and calculators and short videos.

They stood out against the others with their videos breaking up the monotony of scrolling through articles. Nutmeg can justify a website without the extensive guides, tools or research as the customer is not managing their investments but choosing an investment style that is managed for them.

Nutmeg's *Understanding Investment Risk* is a great guide that I found gets to the heart of risk and what a beginner should consider that was easy to read and digestible. This contained a low, medium, and high-risk example table, showing the portfolio composition with a **Best Year Return** and a **Worst Year Fall** with the gains and losses shown as a percentage.

The research available is extensive but I had to invest a lot of time to wade through them to pick out the ones that may be relevant. Much of the information could languish if a novice investor finds them difficult to use. All the tools presented whether that is guides, calculators or charts, will fail if the investor cannot disseminate them to inform a decision.

2.4 How Many Clicks To Invest?

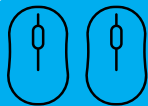
When looking at just how easy it is to open an account, I compared the time it took, the number of clicks and the effort required. The digital account opening for our chosen providers varied between under five minutes to 30 minutes.



It makes sense that the robo-advisor **Nutmeg** took longest to set up due to the nature of its service. Their risk and attitude survey of 10 questions feeds into an algorithm and connects the customer to aligning options.

They offered a preview of the portfolio they can build and manage, taking the customer through a *try-before-you-buy* facility using basic parameters of investment amount, term of investment and sliding scale of attitude to risk.

A nice touch allowing me to review their example portfolio projection of gains, list of investments in the portfolio and historical data based on one of three investment styles.



Next up was **Barclays Smart Investor** with their set up taking approximately 10 minutes to complete provided you have all the information needed to complete their verification and checks.

Completing their application was administrative with more data collection than the others, but the information was clear, and the user journey was straightforward.



The quickest journey to set up an account was **Hargreaves Lansdown**. It took me five minutes and required less effort (in clicks) and online verification was instant.

Whilst it required less input and was fast to complete. Opening an account, also *felt* effortless.

Each interface on account opening was easy to use and just a matter of form filling. Aside from personal information and bank details, the robo-advisor survey only needed the customer to give them a rating to measure their attitude to risk. With the amount of clicks greatly reduced for a customer to onboard, it begs the question, does a shorter onboarding journey equal better?

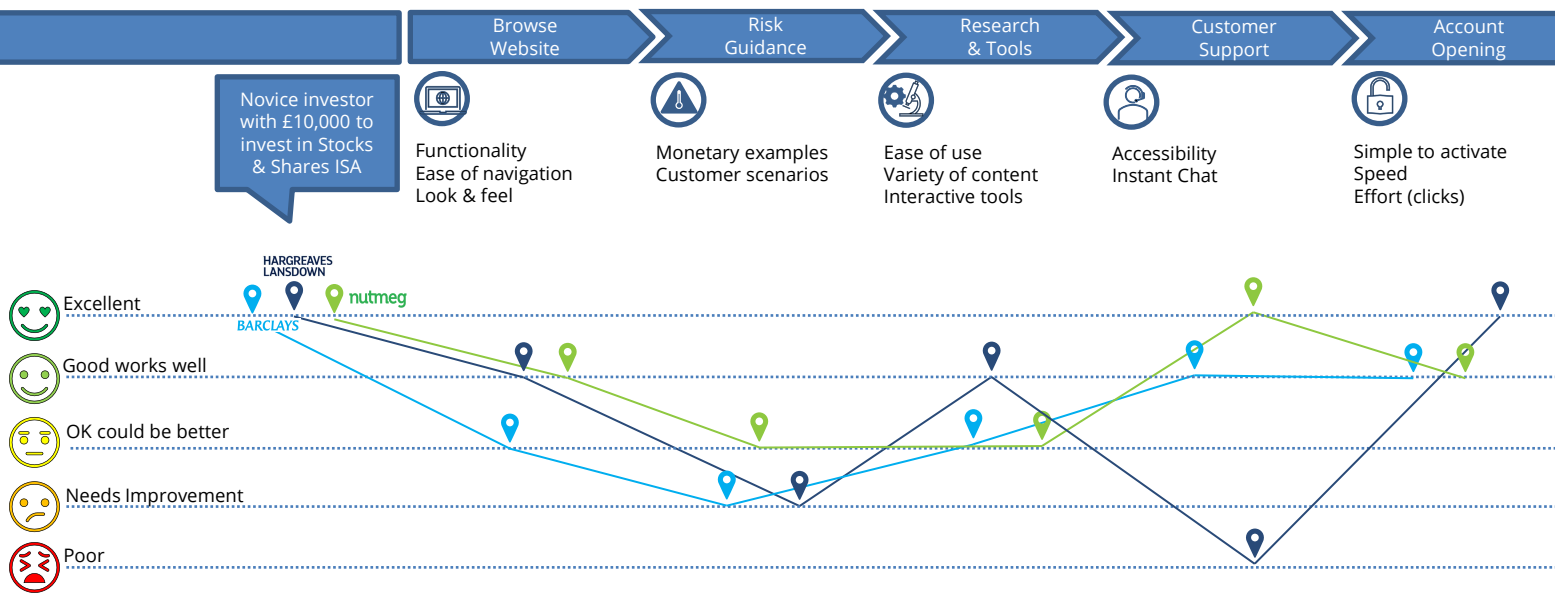
2.5 Summary

What attracts a novice investor that does not have a wealth of investing experience is how easy these platforms are to use. As a customer I found my digital journey across all the providers was hugely varied. Account opening is very simple, but as a novice investor I felt I needed more from these providers to be able to make important decisions to meet my investment goals.

Online investment providers must consider the overall customer experience from how easy the website and platform is to use to the quality of the resources and tools. For a novice investor this may also include the accessibility of the information, whether it is easy-to-digest and in a way that customers can have trust and confidence in selecting their choices all within an acceptable speed to investment journey.

The expectation to meet the customers' needs are high. This is incredibly difficult when customers have varying preferences and needs.

Customer Journey Map*



*this is representative of my personal experience navigating across all three websites during the period 15/06/2020 to 29/06/2020



03

CONCLUSION

3 CONCLUSION

So how easy is it for a novice investor to invest in stocks and shares?

The short answer is **very easy**.

What is not so easy to answer is whether a novice investor is able to make the best-informed choices for their investment and an investment strategy that is appropriate to their goals.



User Experience

If we measure the online investment experience based on time, clicks and effort for just account opening then we would have a clear winner. The overall digital experience metrics we included are broader and it is very difficult to measure user experience when this is down to customer preference. Matching a provider's functions to your preferences can make a difference.



Digital Journey

Firms must juggle the administrative and usability functions to bring their customers onboard quickly and flexibly but there is a cost of not striking the right balance of speed and the guidance and tools for customers to be fully informed and have confidence in their investment choices. It is good practice to review the post onboarding service and tools to see if they will meet your needs.



Investment Strategy

It can be straightforward for a beginner to select the appropriate provider and investment strategy if the novice investor is clear on some basics such as; understanding attitude to risk and a general idea of what you are looking to achieve with the money you want to invest. Providers will give you the research and tools to determine your strategy for your investment goals.



Comparisons

Comparison sites are very useful, but they can be limiting when rankings tend to be focused on cost. They can provide unbiased comparisons although watch out for affiliated providers when filtering tables. Their reviews are catered for all types of investor and will vary dependent on their comparison metrics. Understand the metrics and use the tables that fit your customer profile to help you decide.



Research

The competitive landscape has changed considerably since the introduction of online investment platforms. There is so much choice with hundreds of providers vying for our savings and whilst ease of transaction is paramount, research is an absolute must. The onus is on you, the customer.

If you are a novice investor, then it will pay to do your homework to complement any reviews and best buy tables. Regardless of whether you want a hands-off approach and feel ready-made portfolios are for you or you are willing to research trade and monitor your own investments then investigate the potential providers.

There is a huge variation in the user experience offered and each interface has varying depths of information and different tools and features and only you know what is right for you.



Optimising your digital journey

Be at the forefront of your digital revolution

Our services will help you grow and build your digital capabilities wherever you are on your journey. Together we can define your digital proposition, provide front to back integration analysis or model your end to end customer journey. Our digital advice consultancy, including robo-advisor insights can take you to the next level.

Visit simplifyconsulting.co.uk or email info@simplifyconsulting.co.uk

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