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DATA | ANALYTICS | INSIGHTS






Presented to:



## OCC Options Market Research

September 2020

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# Project Background

# Project Background

**Objectives:** The purpose of this research is to explore similarities and differences between options users and non-users, as well as provide the Options Industry with an updated profile of options users, to be used in strategic planning for OCC.

**Methodology:** The study was conducted electronically, with self-directed retail investors with a minimum of \$25,000 in liquid assets in their non-IRA accounts and have made at least one trade in the past year. “Options users” and “non-users” were self identified on the basis of whether they had used options in the prior 12 months and further divided into those who had used them previously and those who had never used them.

Source: Greenwich Associates 2020 Options Market Research Study.



# Executive Summary

# Option Users and Non-Users are Remarkably Similar in Most Respects

- Interestingly, options users and non-users have similar risk tolerances.
- Options users are more likely to have an advanced degree.
- The great majority of option users and non-users have a net wealth of less than \$250,000.
- They conduct similar levels of diligence with regard to their investments.
- They have similar levels of curiosity about new instruments.
- What's more, they are very similarly comfortable taking significant risks in the hope of earning significant rewards.
- There is little difference in how they perceive their performance, as investors.
- Interestingly, this is about the same difference between investors who consider themselves “extremely knowledgeable” and those who do not.

# Options Users and Non-Users do Differ in Important Ways

- The largest difference between users and non-users, by far, is their self perceived level of knowledge. Option non-users are far less likely to consider themselves knowledgeable.
- The study shows that option users and non-users have similar levels of risk tolerance. Where they differ is their confidence in what they know.
- Options users primarily differ from non-users in their philosophy and approach to investing. Options users see investing as part of their lives and identity, it's not just a hobby.
- Though a majority of users and non-users consider themselves to be investors rather than savers, non-users are 30% more likely to think of themselves as savers.
- Options users trade a wider variety of instruments than do non-users. They were more likely than non-users to use virtually every instrument about which the survey asked.

# Option Users Are More Likely to Use More Products and Services from Their Brokers

- Option users were more likely than non-users to use every kind of investment security other than individual stocks and dividend reinvestment plans.
- Option users were more likely to use every kind of brokerage service aside from robo-advising, which was not particularly popular in the sample.
- Though a small number of option users had a large number of accounts, the median and the mode used a single broker for options.



# Characteristics of Option Users

- Options users have a wide range of reasons for using options. Their primary uses are generating income and acting on investment views.
- The main driver for the first options transaction, by far, is a sense of the need to master options. The intellectual curiosity of the client, rather than the nature or the utility of the product, drives the first trade.
- Systematically across all brokerages, option users rate market data and order entry highly. They are less enthusiastic about risk management and analytical tools.
- There is no dominant source of options information, and most options users use more than one.

## Options Non-Users: Generally Open to Using (or Re-Using) Options, but Lacking in Specific Knowledge

- Nearly a quarter of non-users have used options in the past.
- Of those who have traded options before, nearly 70% would trade options again indicating that circumstances, rather than a negative experience, are why investors pause their options trading.
- Among those who have never traded options, 40% would consider it.
- By far, the greatest reason given by those who have never traded options for not trading them is a lack of understanding. The second most popular reason at 28% is a perception of risk.
- Interestingly, among those who have traded options, and who are overwhelmingly open to do so again, the leading reason they haven't traded them in the past 12 months, is also a lack of understanding.
- However, the experience of trading options cuts the perception of risk almost in half, indicating that the “perception of risk” can be overcome by experience, the lack of which can be overcome by options education.

# Conclusions: Tying it All Together

- A major difference between users and non-users is the propensity of option users to use other instruments aside from individual stocks. This has significant implications for brokerage firms for whom stock transactions fees have been under significant pressure.
- A significant finding of this research was that there was little difference between users and non-users with regard to their risk tolerance. They were equally likely to take high levels of risk in return for significant levels of gain.
- An important distinction between those who have never used options, and those who have recently used them, is that users of options perceive them as less risky than those who have never used them. Thus education is likely a powerful tool for transforming non-users into users.
- Non-users in the study are quite open to using options, but the main hurdle, both for prior users and, in particular, for non-users is knowledge about options as a product.
- Option users are distinguished by their intellectual curiosity about options which drives them to overcome the knowledge hurdle. Additionally, the starkest difference between users and non-users is their level of knowledge of investing. It stands to reason, that improved ease of access to options education, thus lowering the hurdle, would go a long way toward expanding the uptake of options usage.

# Postscript: Results of the COVID-19 Natural Experiment

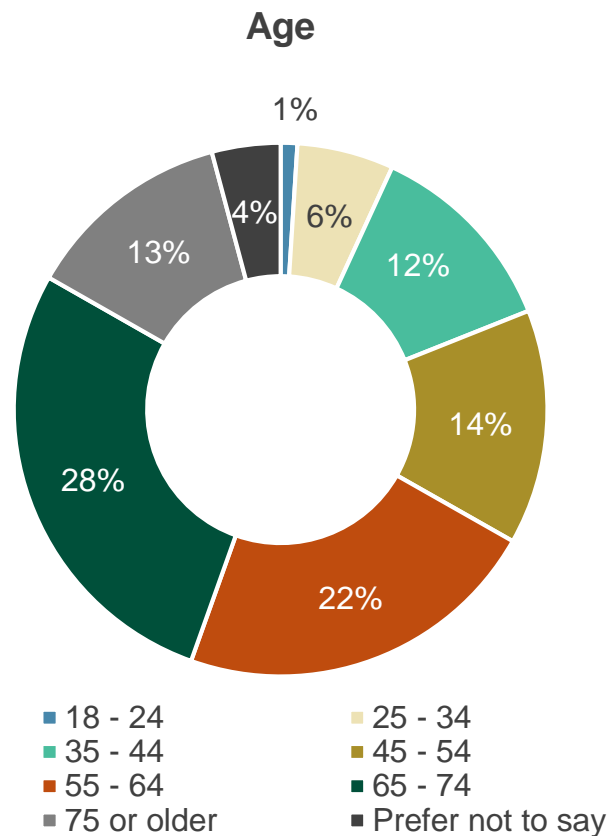
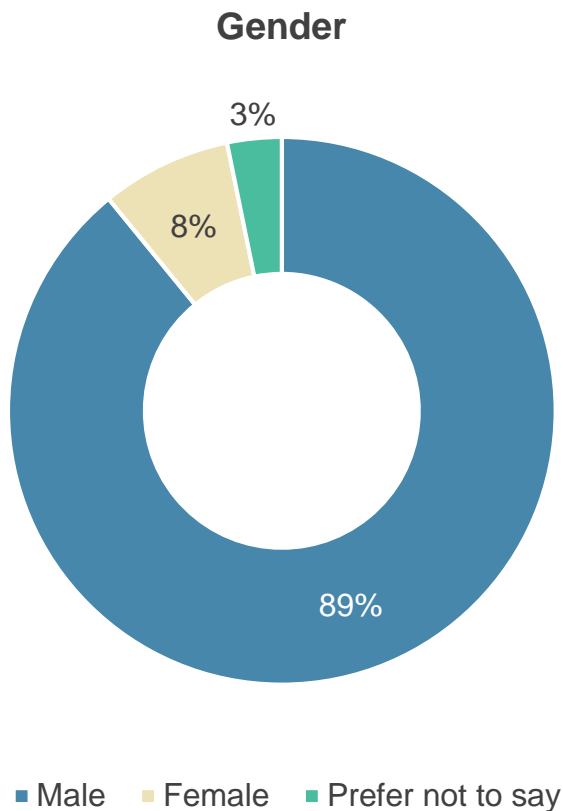
Fielding of this study was interrupted by the COVID 19 pandemic causing delays that led to the interviews being conducted throughout the episode rather than in Q1 as intended. This resulted in a natural experiment on how investor attitudes change during a period in which markets experienced a dramatic decline and a robust recovery.

- Interest in options by non-users increased significantly from Q1 to Q3.
- Throughout 2020, there was a steady decline in the proportion of respondents who said that “investing is an important part of their lives.”
- In Q3, there was an uptick in interest in new investment vehicles, and the proportion of people who changed from thinking of themselves as “savers” rather than “investors.” This is true for the entire sample, both option users and non-users.
- The proportion of investors who considered themselves “extremely knowledgeable” was cut in half by Q3.
- Self-evaluations of performance declined, as did the degree to which investors felt knowledgeable. It may be that investors are particularly open to education immediately after major declines.
- As for the utility of options, there was a spike in over-writing in Q2, and an increase in speculative usage in Q3.



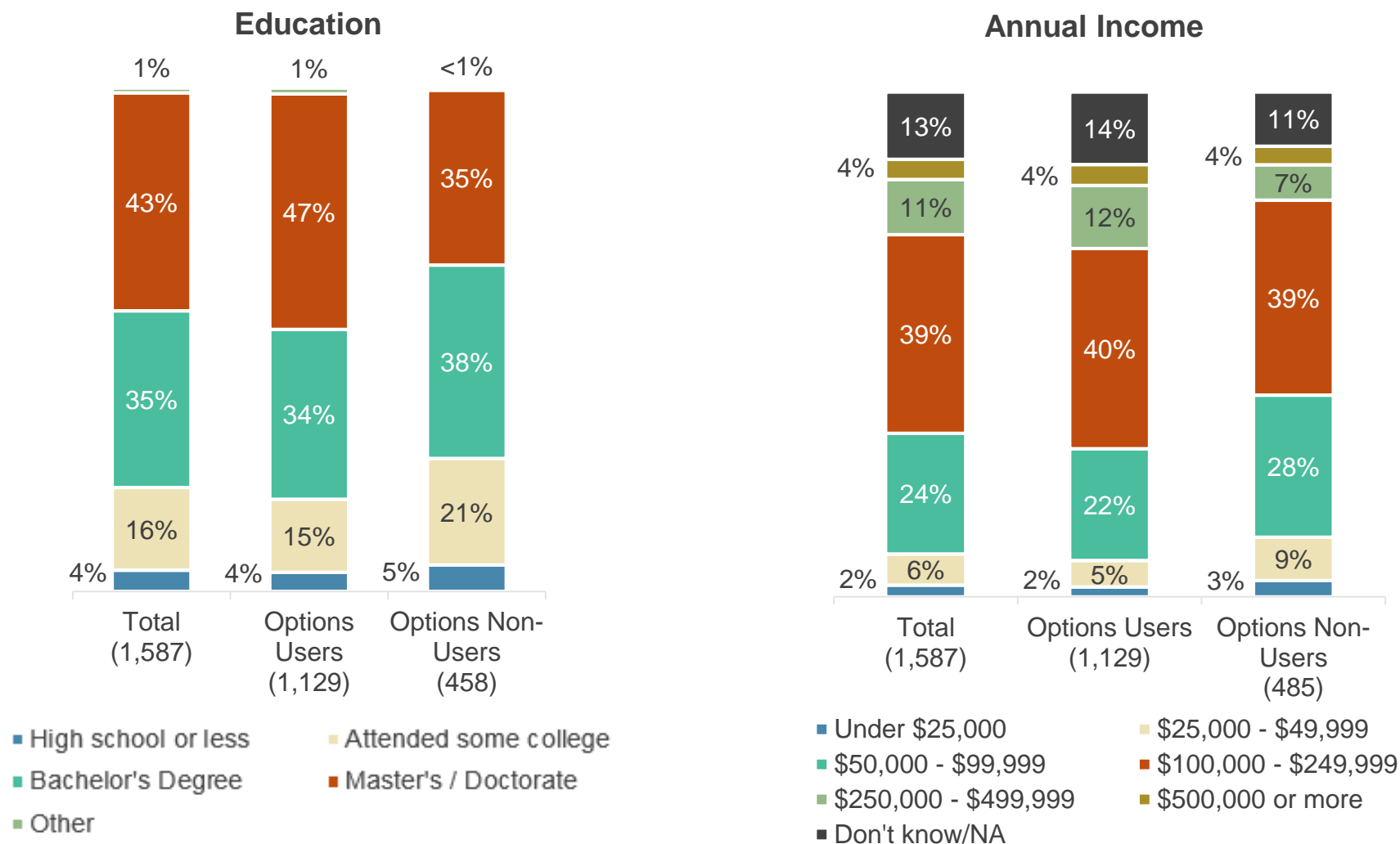
# Demographics

# Demographics



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Demographics, Cont'd.



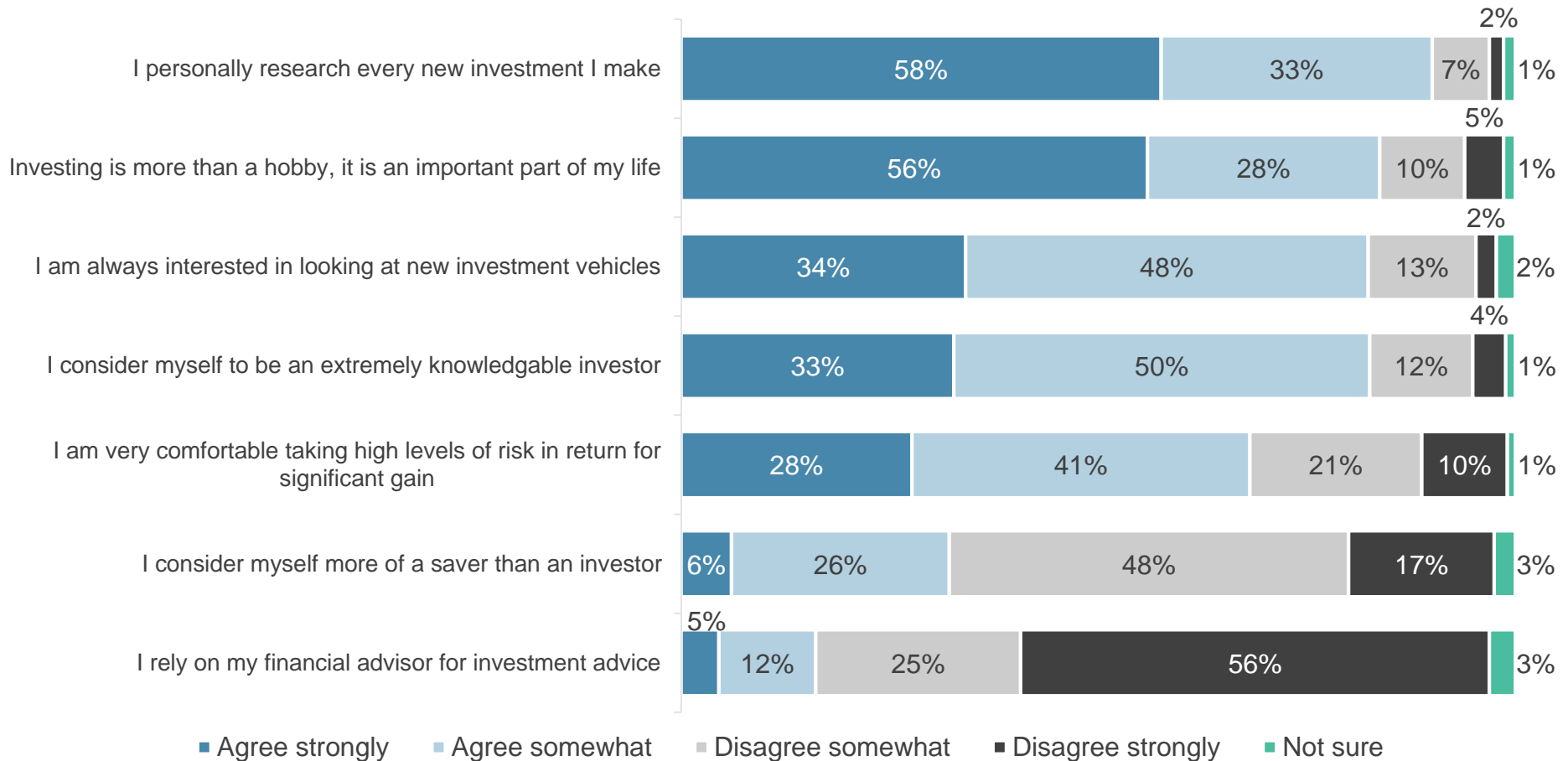
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.



# Attitudes Towards Investing

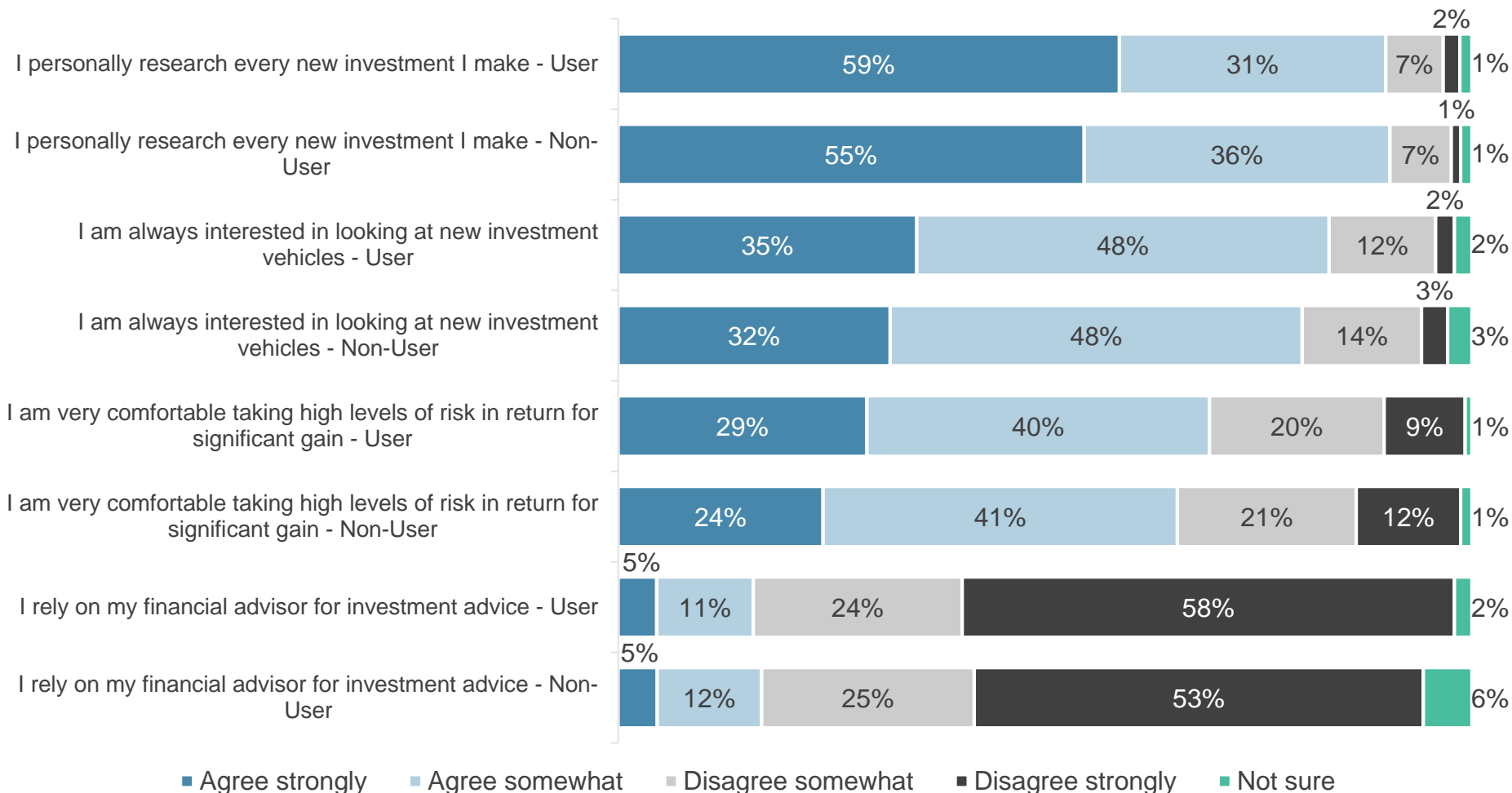


# Attitudes Towards Investing



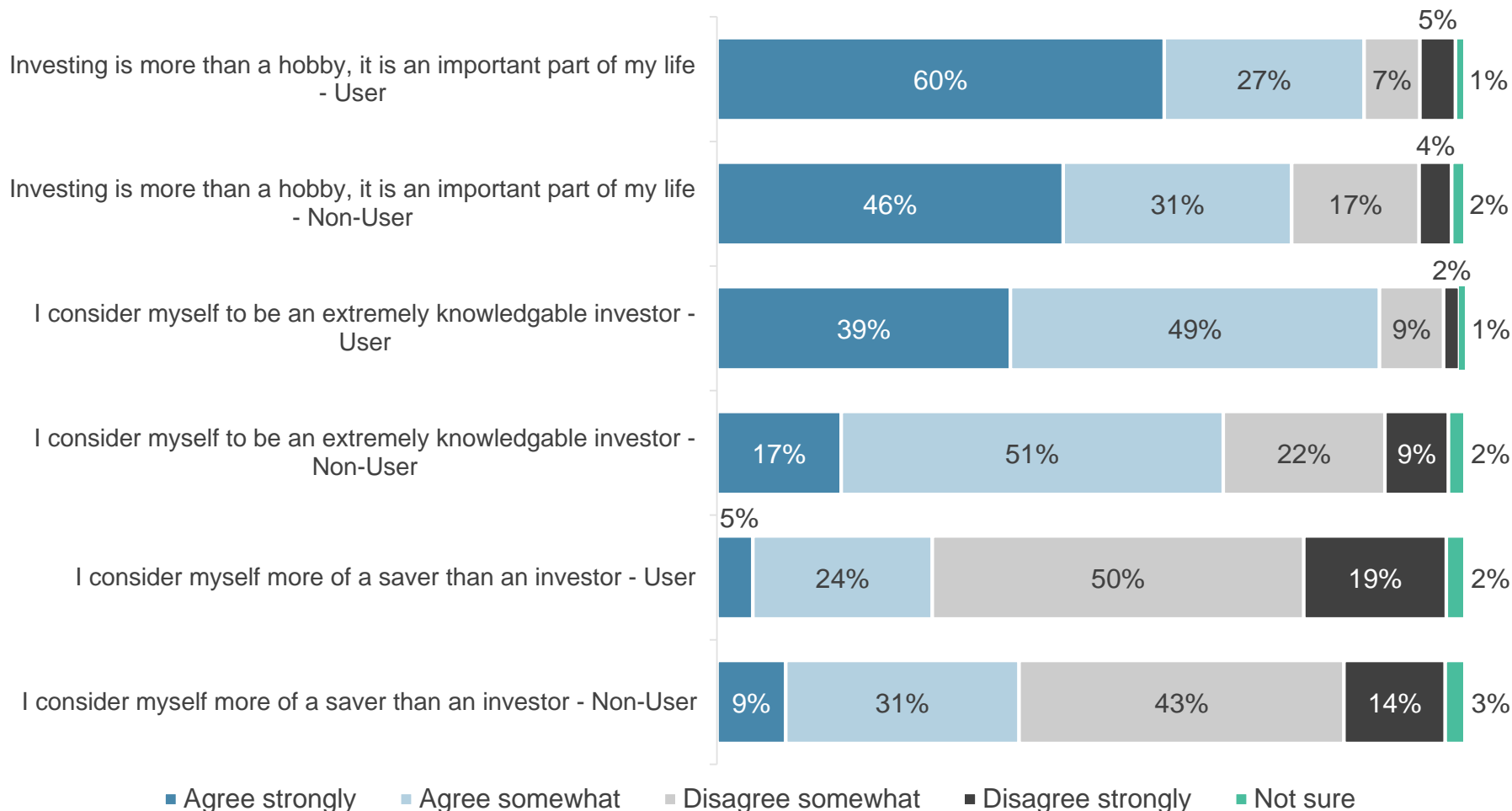
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Attitudes Towards Investing (Users vs. Non-Users)



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

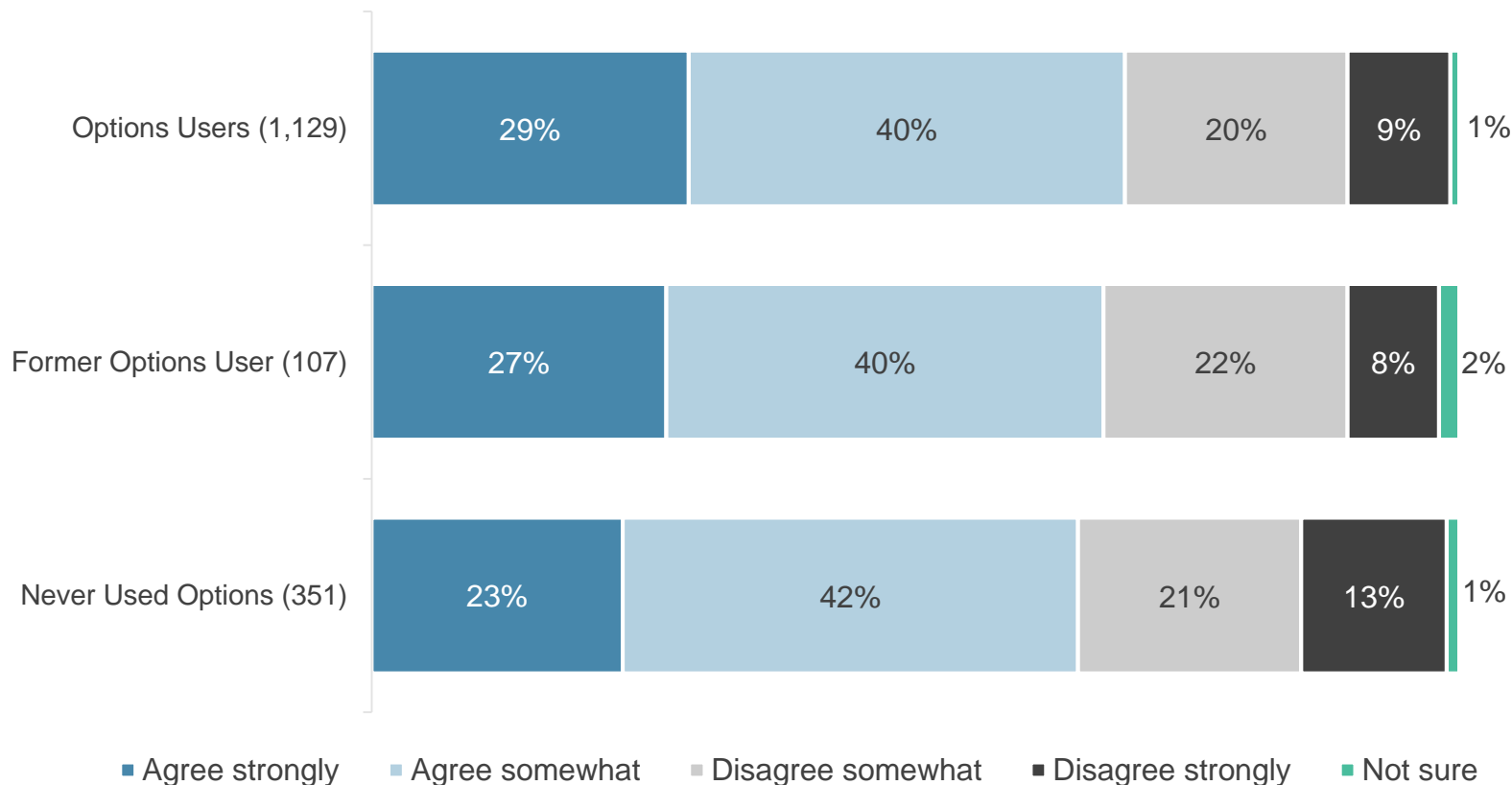
# Attitudes Towards Investing (Users vs. Non-Users), Cont'd.



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Those Who Have Never Used Options are Marginally Less Risk Tolerant

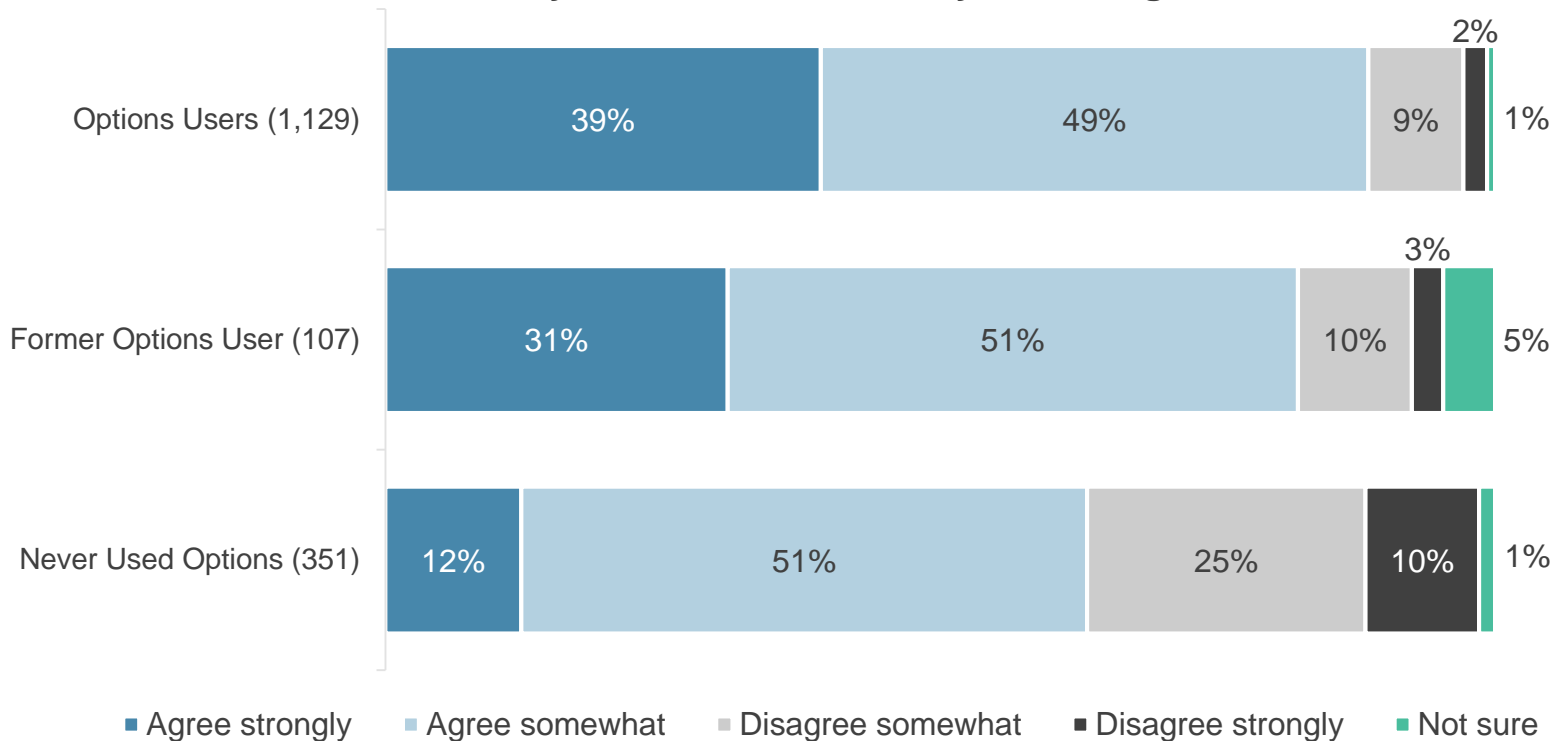
## I am Comfortable Taking High Levels of Risk in Return for Significant Gain



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

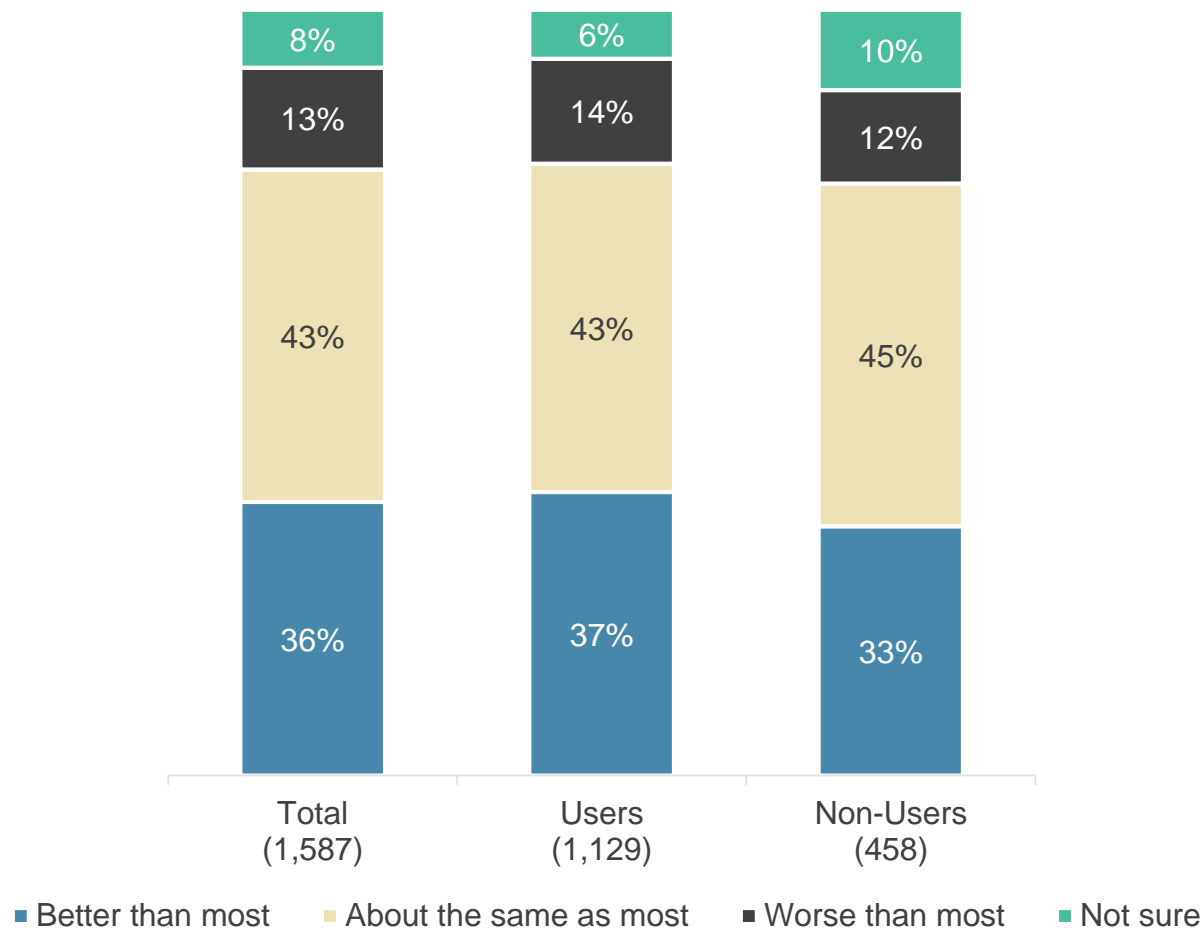
# Those Who Have Never Used Options are Less Likely to Consider Themselves Knowledgeable

## I Consider Myself to be an Extremely Knowledgeable Investor



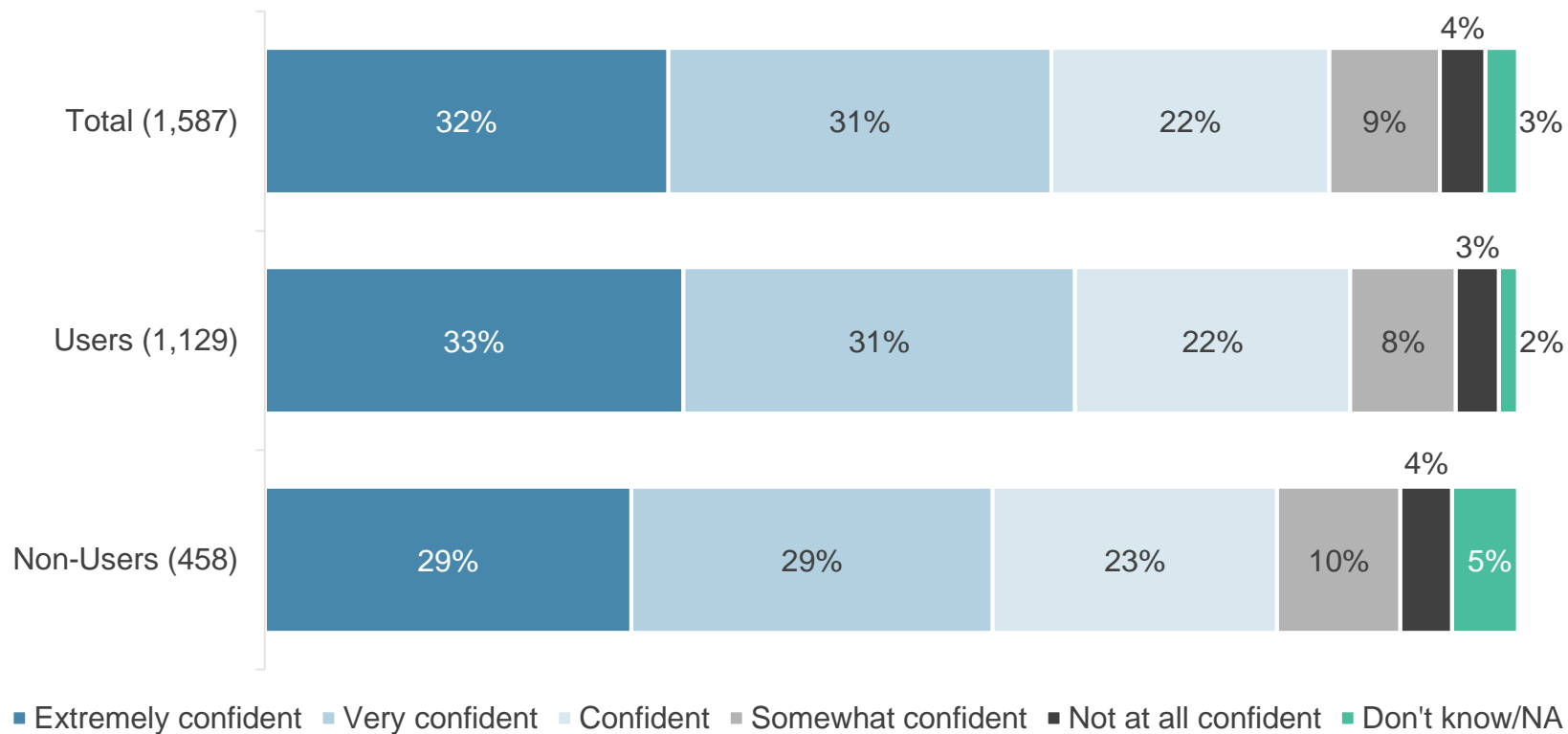
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Self-Assessment of Investment Performance Over Past Two Years



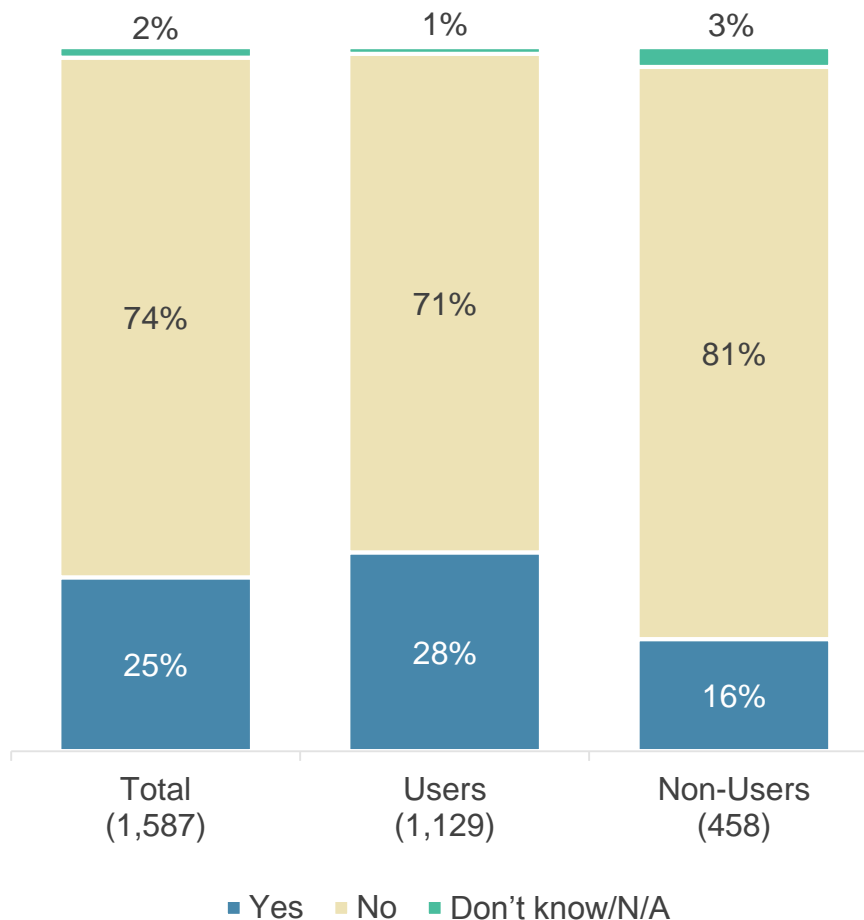
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Level of Confidence in Investing



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

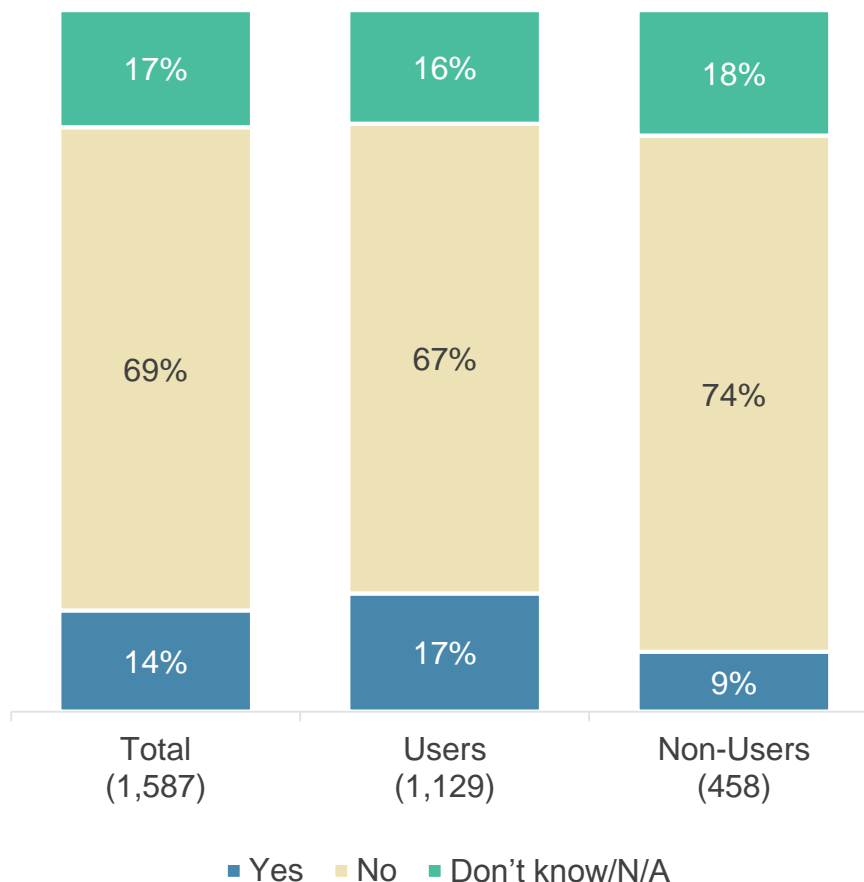
# Changes in Brokers Over Past Two Years



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

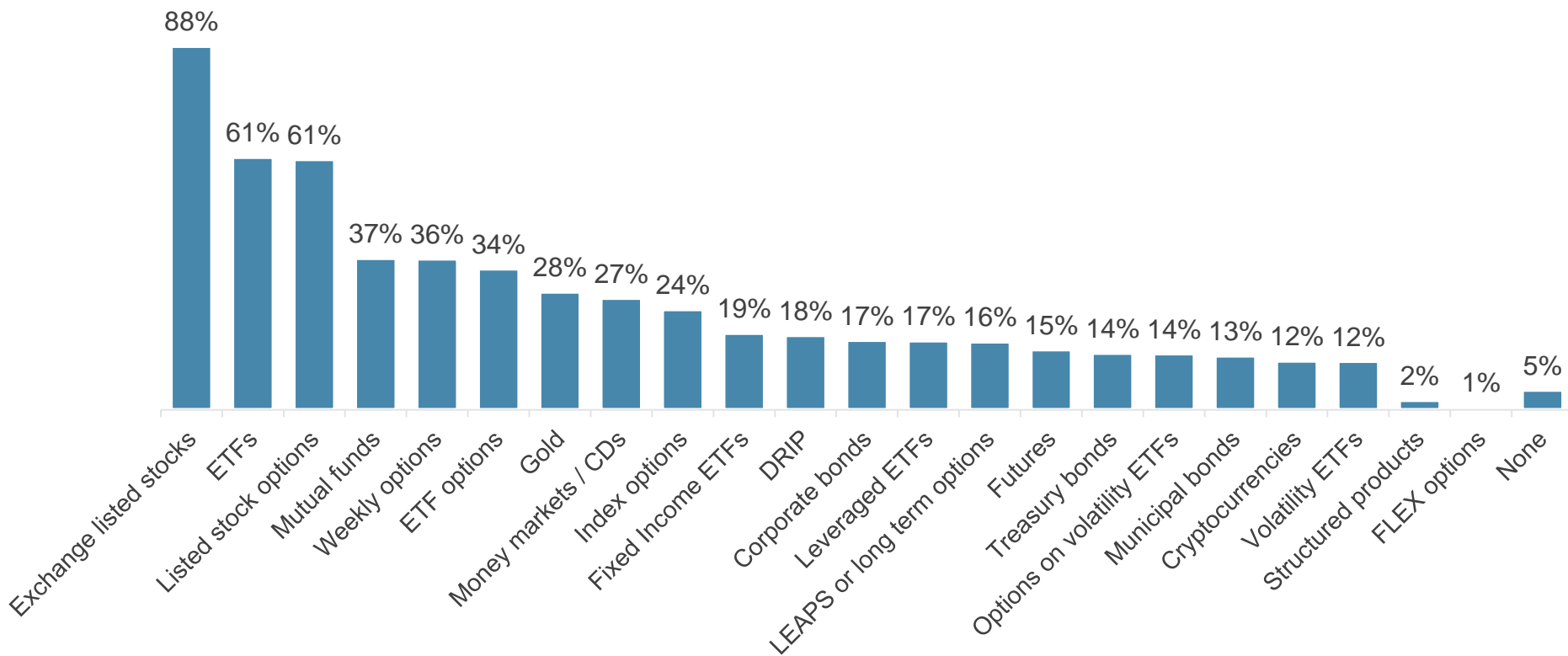


# Consider Changes in Brokers Over the Next Year



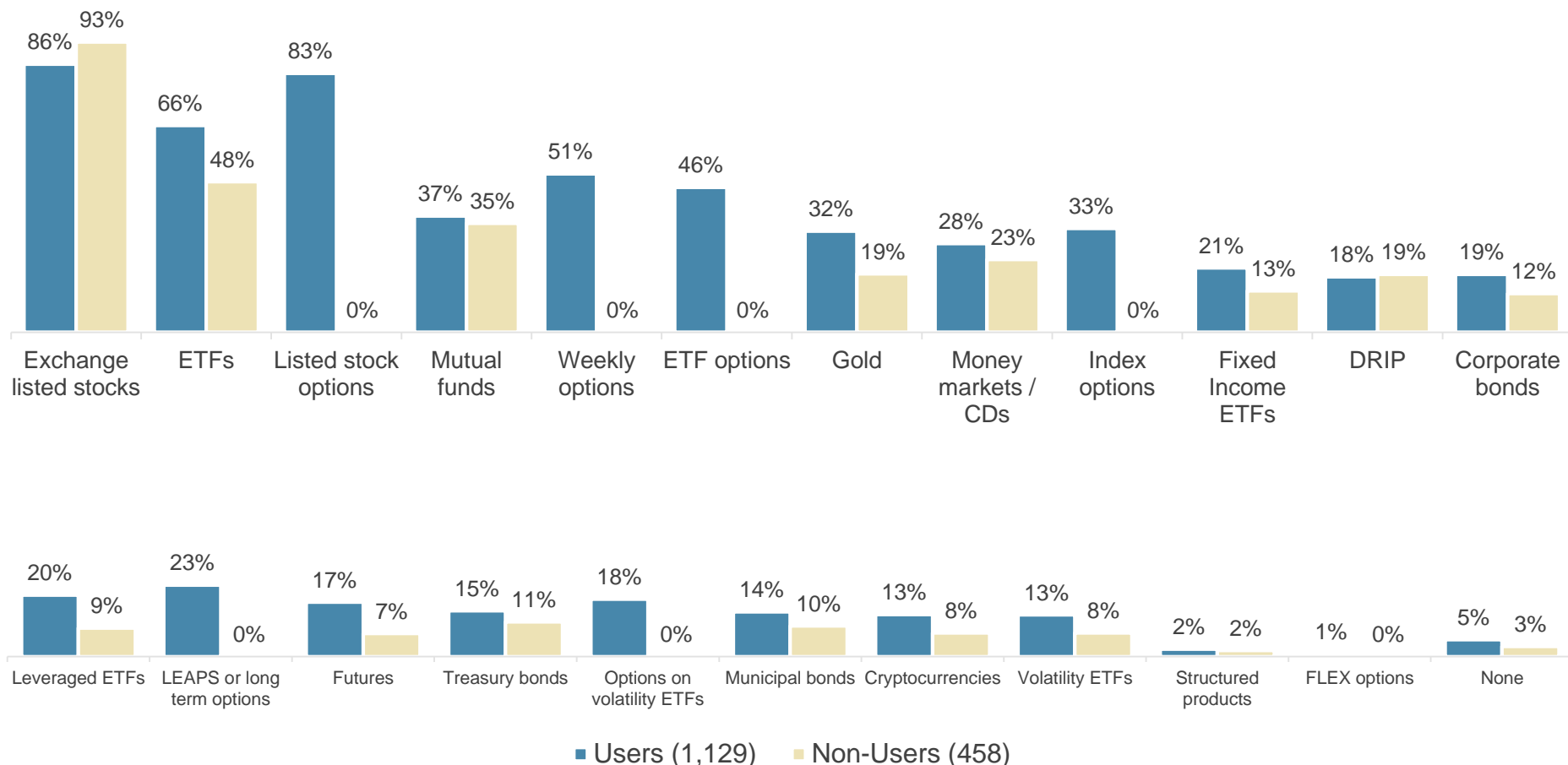
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Financial Instruments/Investments Used



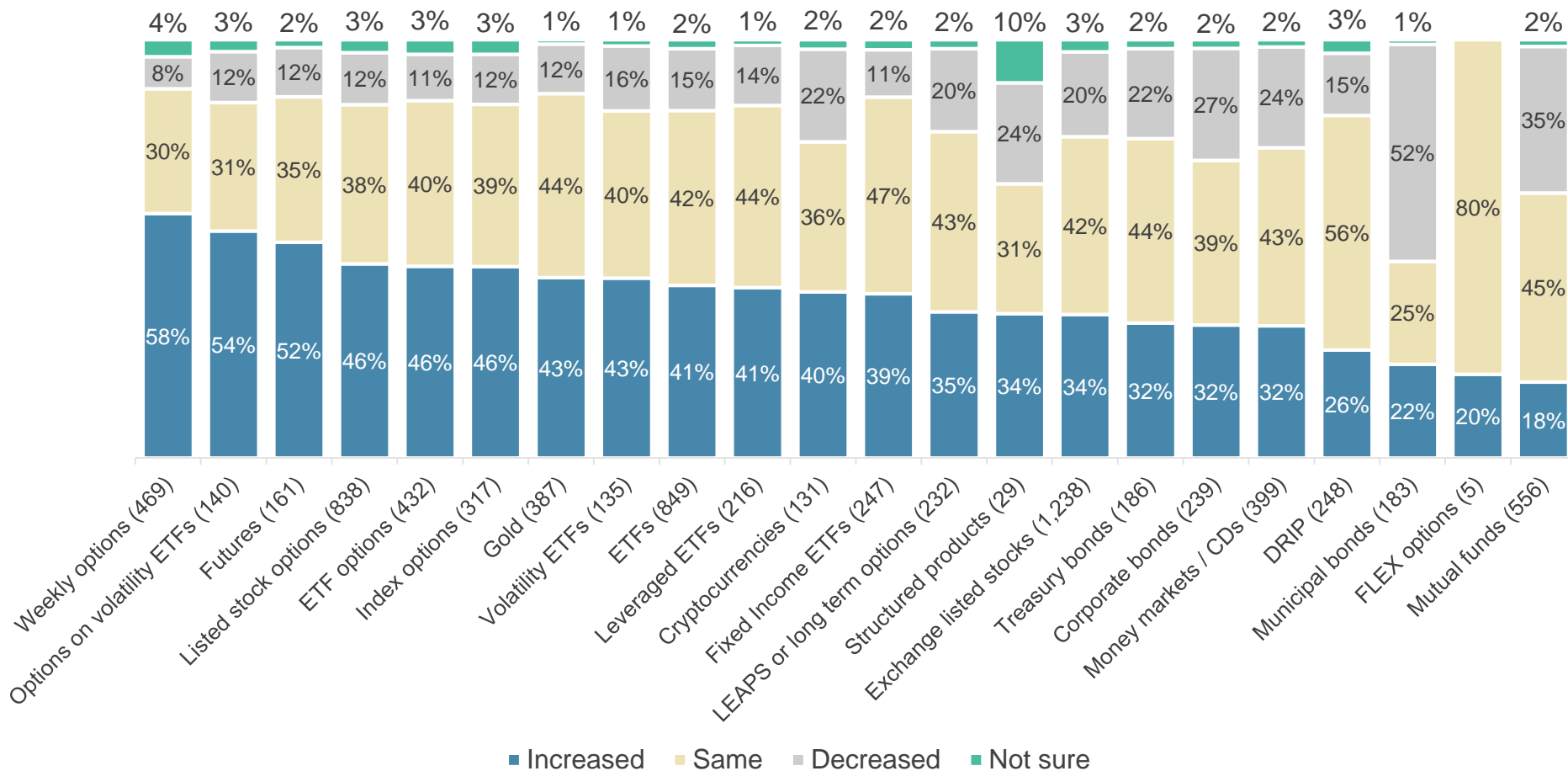
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Financial Instruments/Investments Used – Users vs. Non-Users



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

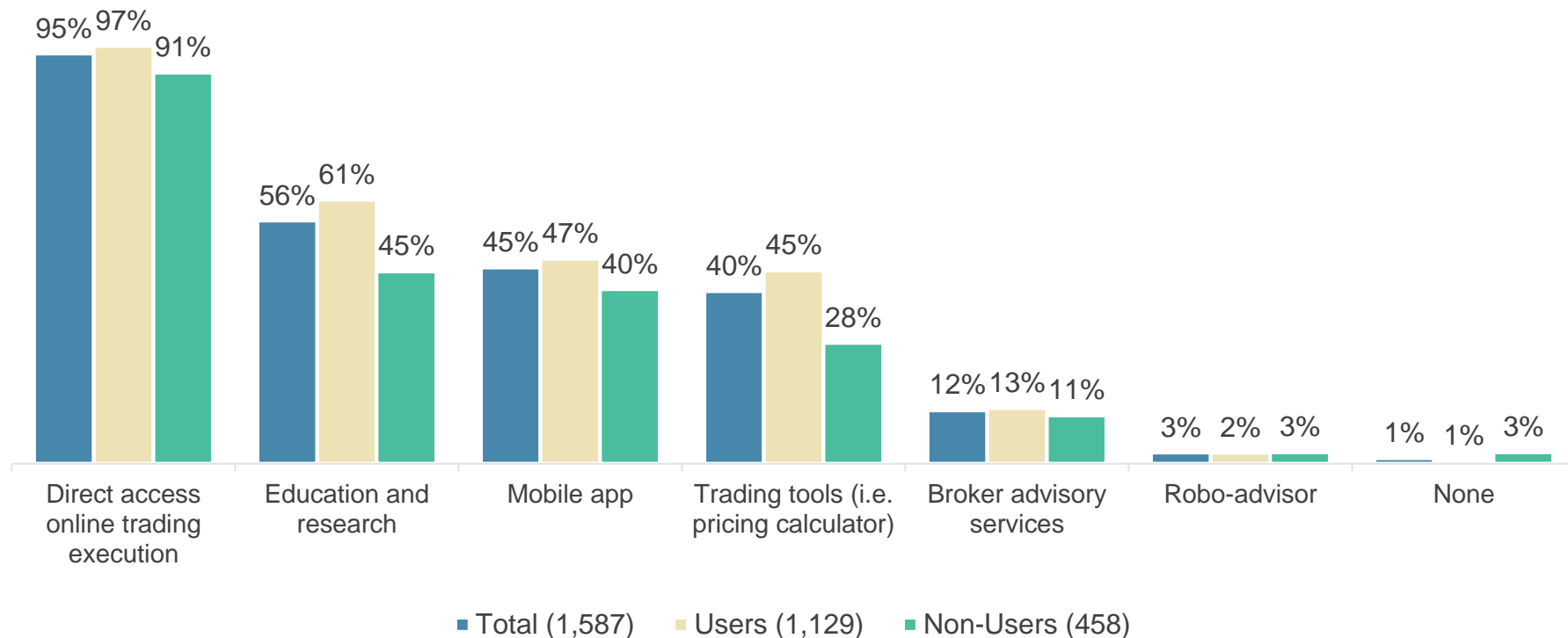
# Changes in Allocation by Financial Instrument/Investment



Note: Changes in allocation are compared to allocation two years ago.

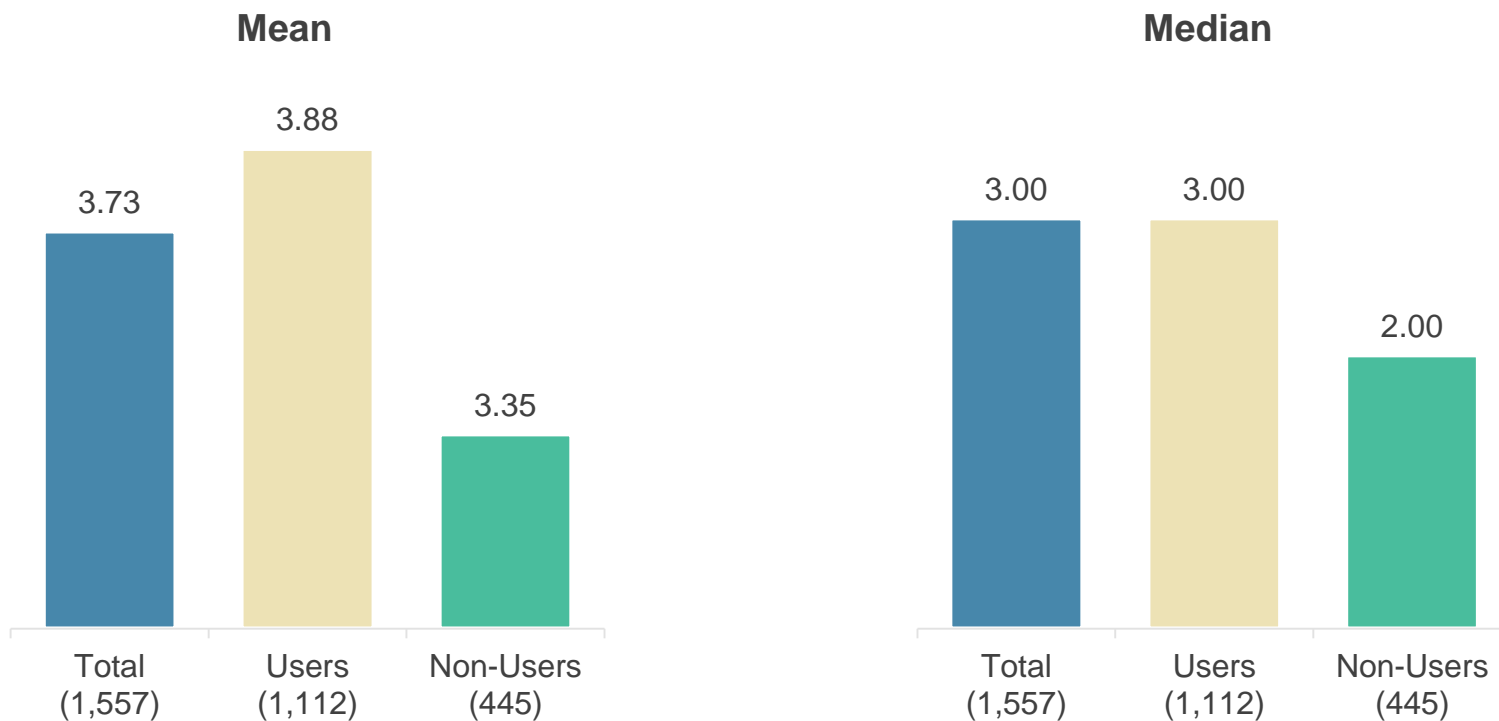
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Investment/Brokerage Services Used Regularly



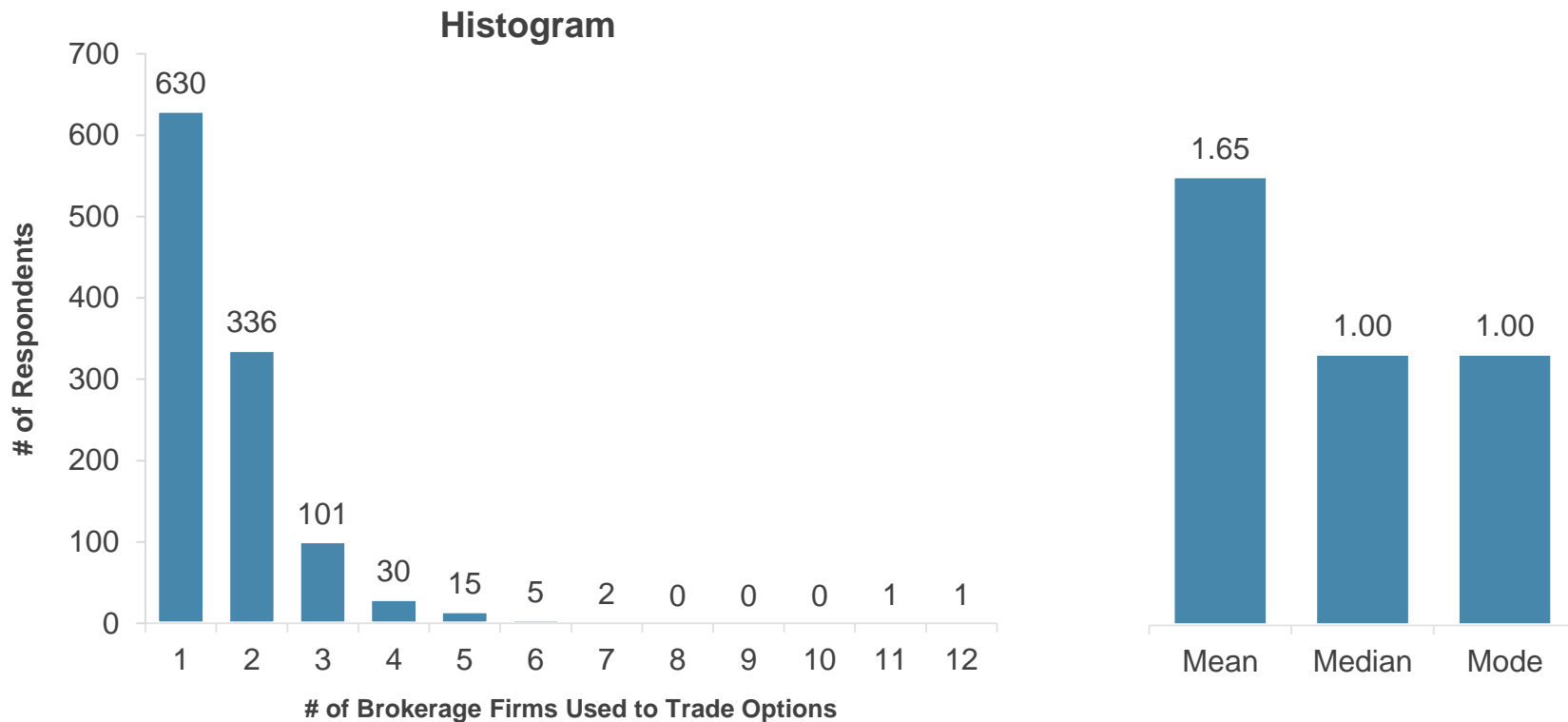
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Number of Brokerages Used



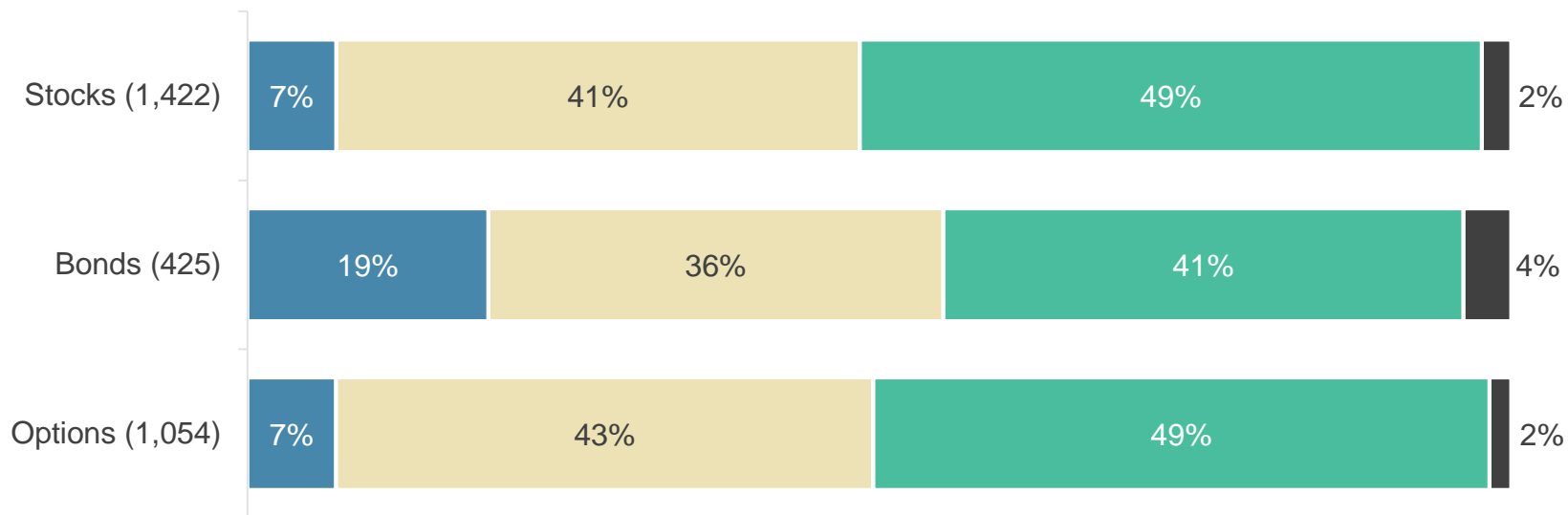
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,557 respondents.

# Number of Brokerages Used to Trade Options



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,121 respondents.

# Level of Broker Support Provided\*



- A firm with an advisor who makes recommendations
- A firm that provides decision support tools but does not make recommendations
- I trade without utilizing broker decision support tools or an advisor
- Not sure

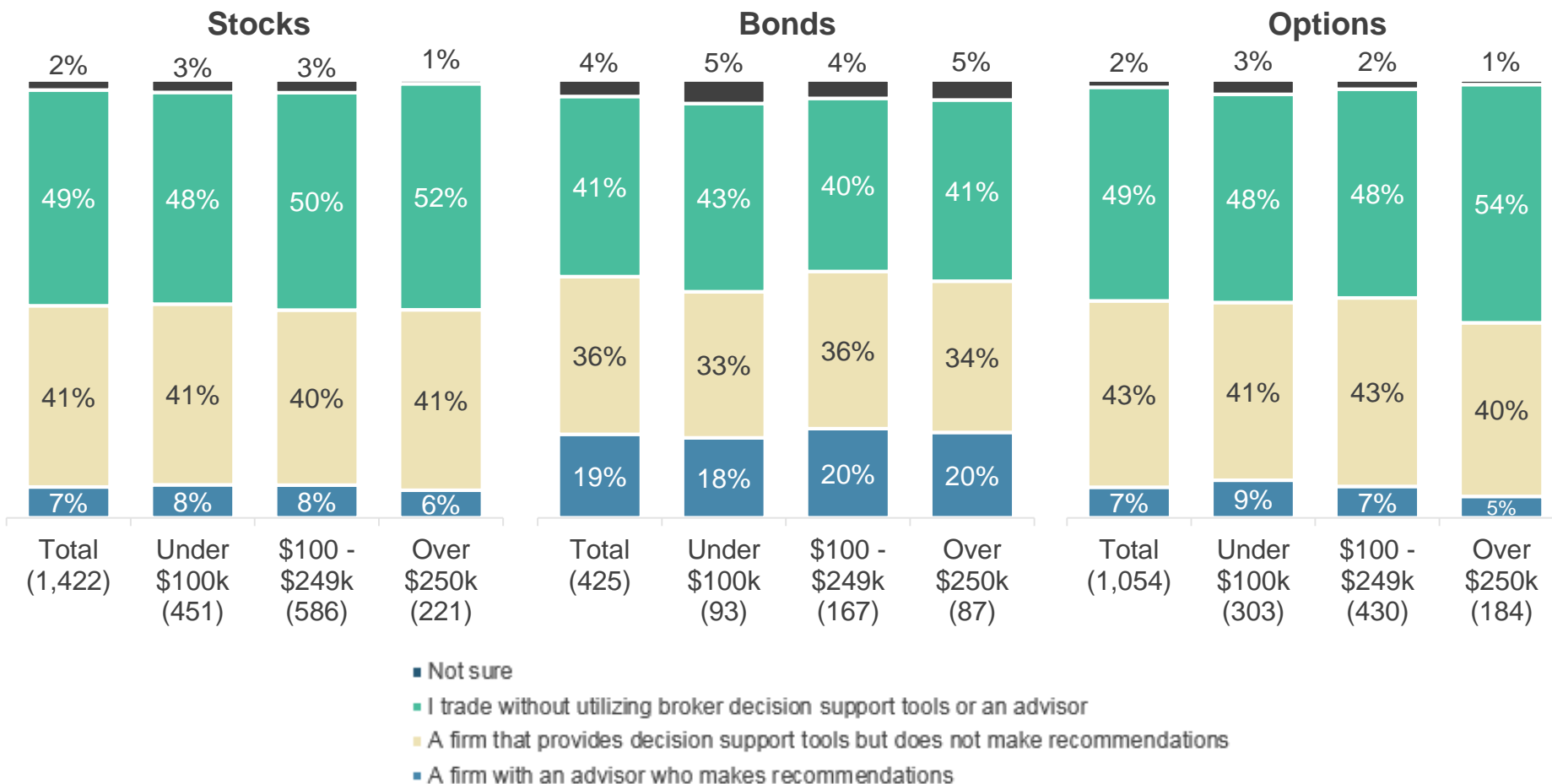
Note: This is not a simple random sample of all investors. All respondents were contacted via their self-directed accounts.

Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.



# Level of Broker Support Provided – By Income Level

(Note: This is not a simple random sample of all investors. All respondents were contacted via their self-direct accounts)

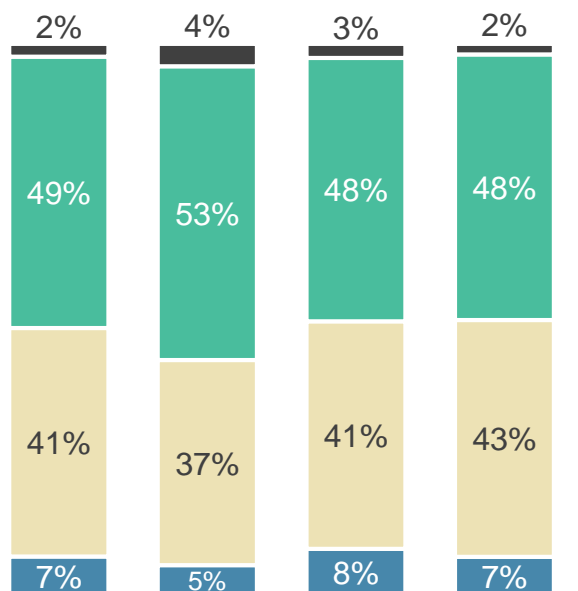


Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

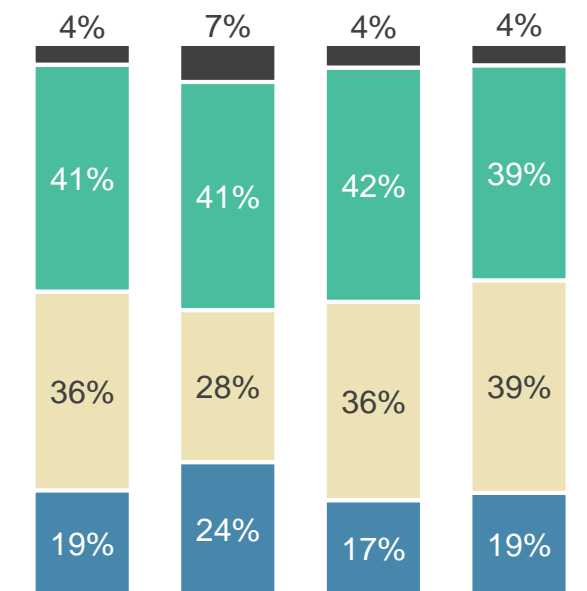
# Level of Broker Support Provided – By Education

(Note: This is not a simple random sample of all investors. All respondents were contacted via their self directed accounts.)

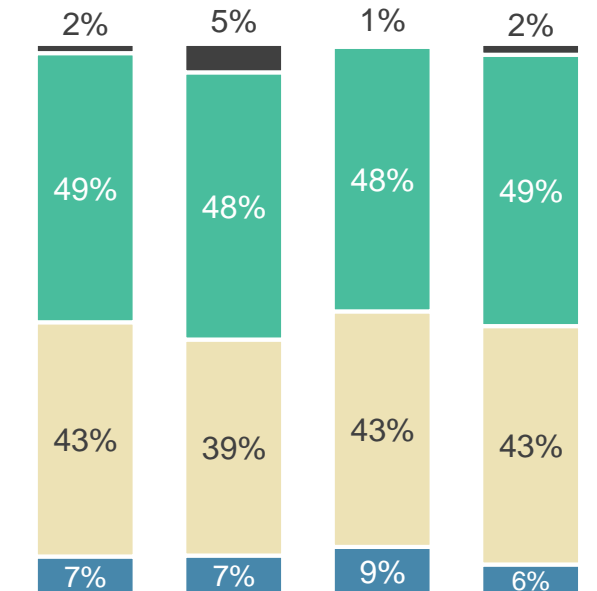
## Stocks



## Bonds



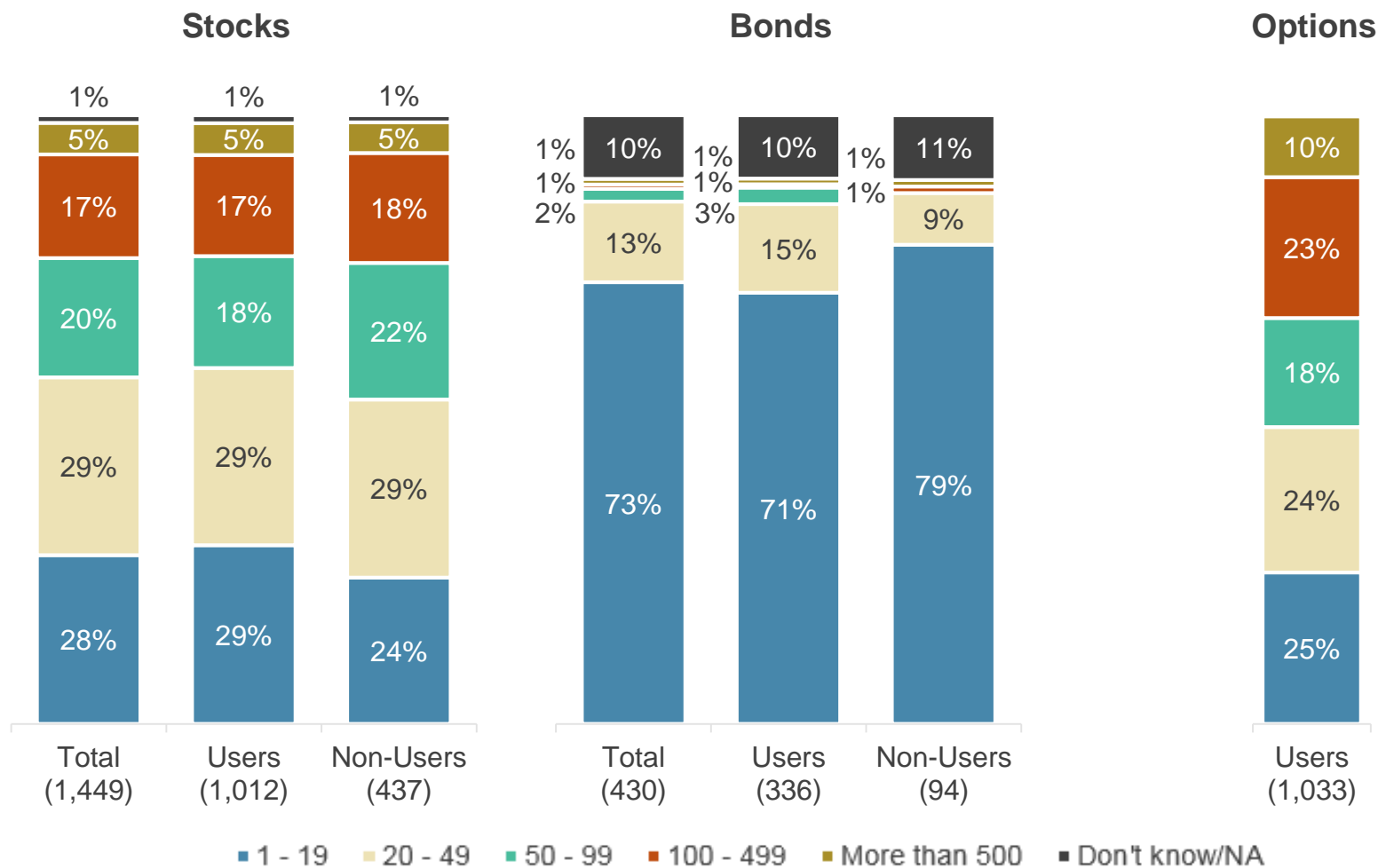
## Options



- Not sure
- I trade without utilizing broker decision support tools or an advisor
- A firm that provides decision support tools but does not make recommendations
- A firm with an advisor who makes recommendations

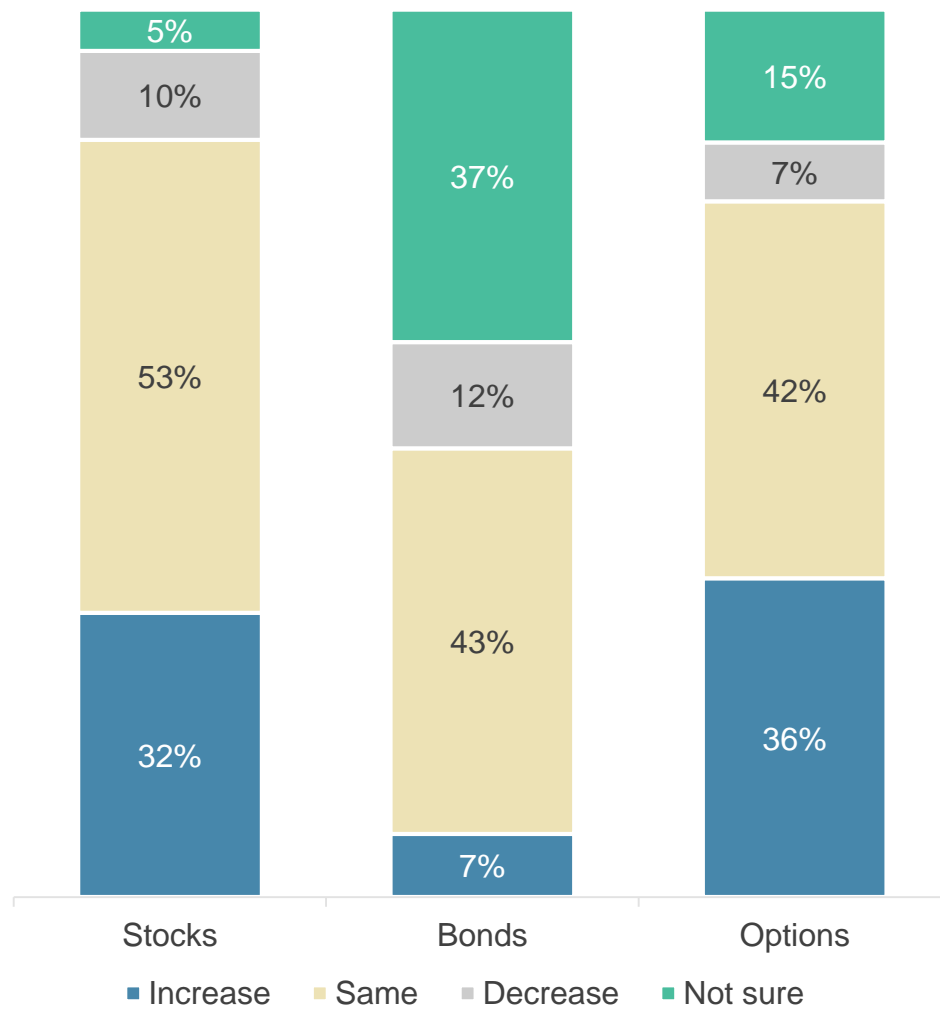
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Number of Trades Executed Over Past Year



Source: Greenwich Associates 2020 Options Market Research Study.

# Expected Changes in Trading Activity Over Next 12 Months

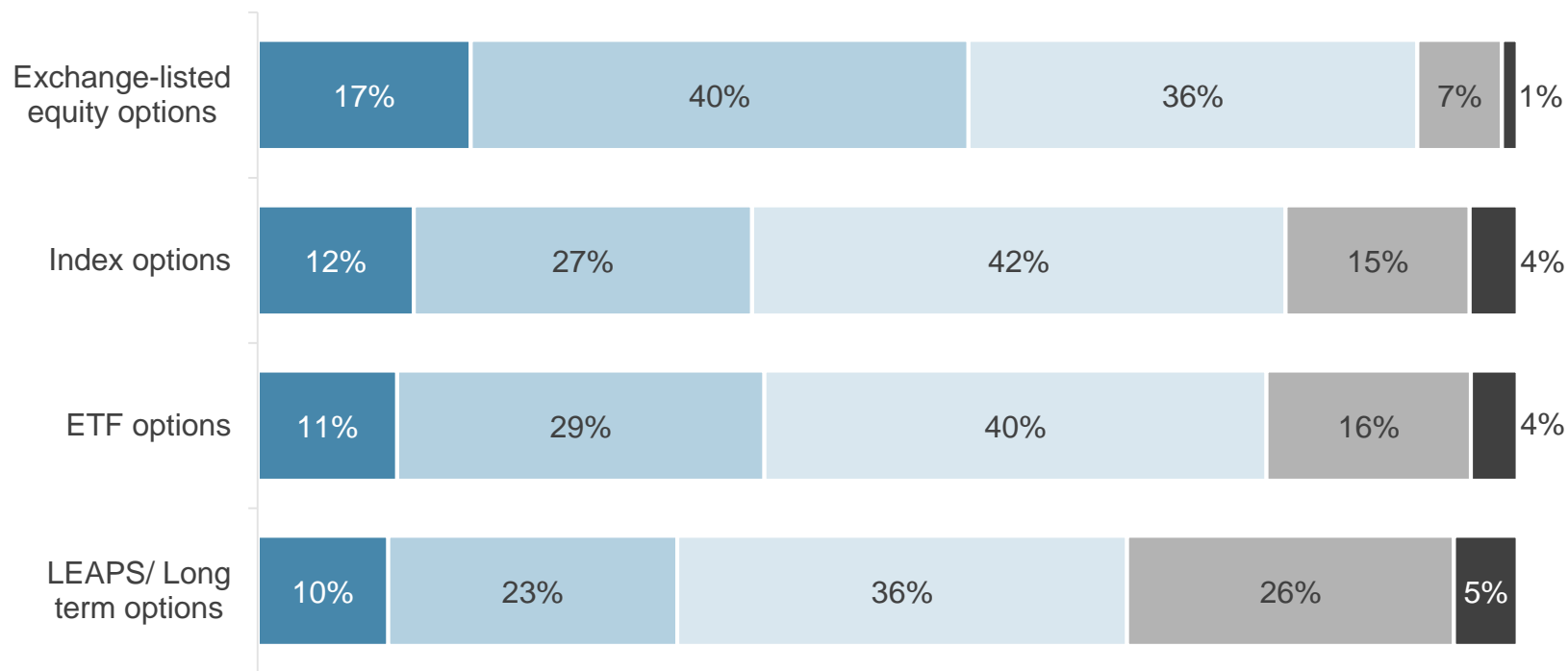


Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.



# Options Users

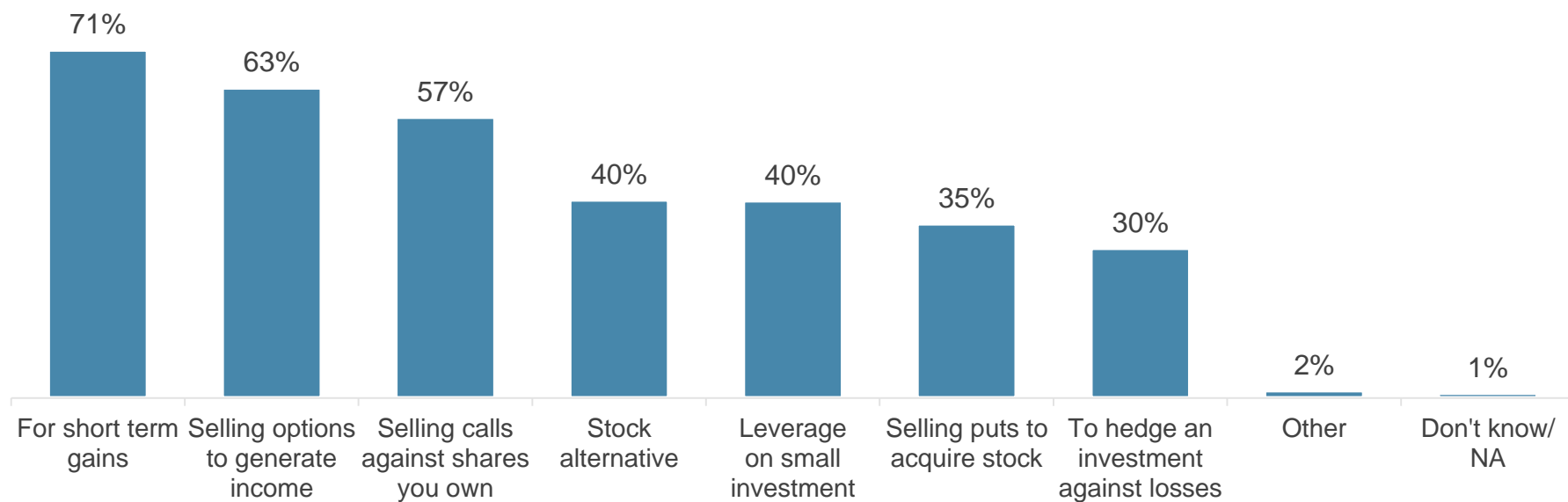
# Options Knowledge Level



■ Extremely knowledgeable ■ Very knowledgeable ■ Somewhat knowledgeable ■ Not at all knowledgeable ■ Don't know/NA

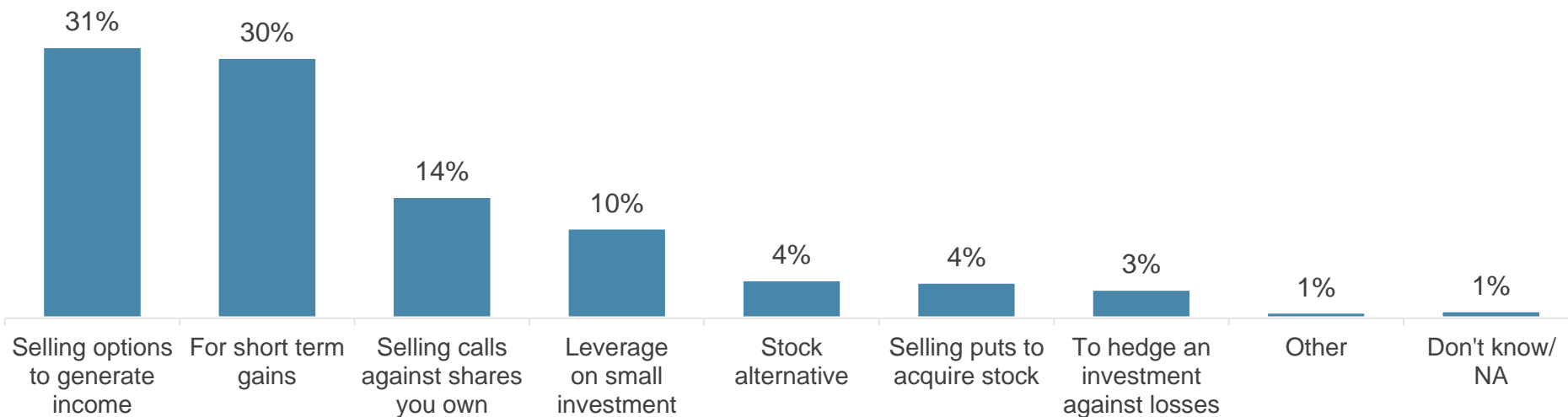
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,129 respondents.

# Reasons for Trading Options



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,129 respondents.

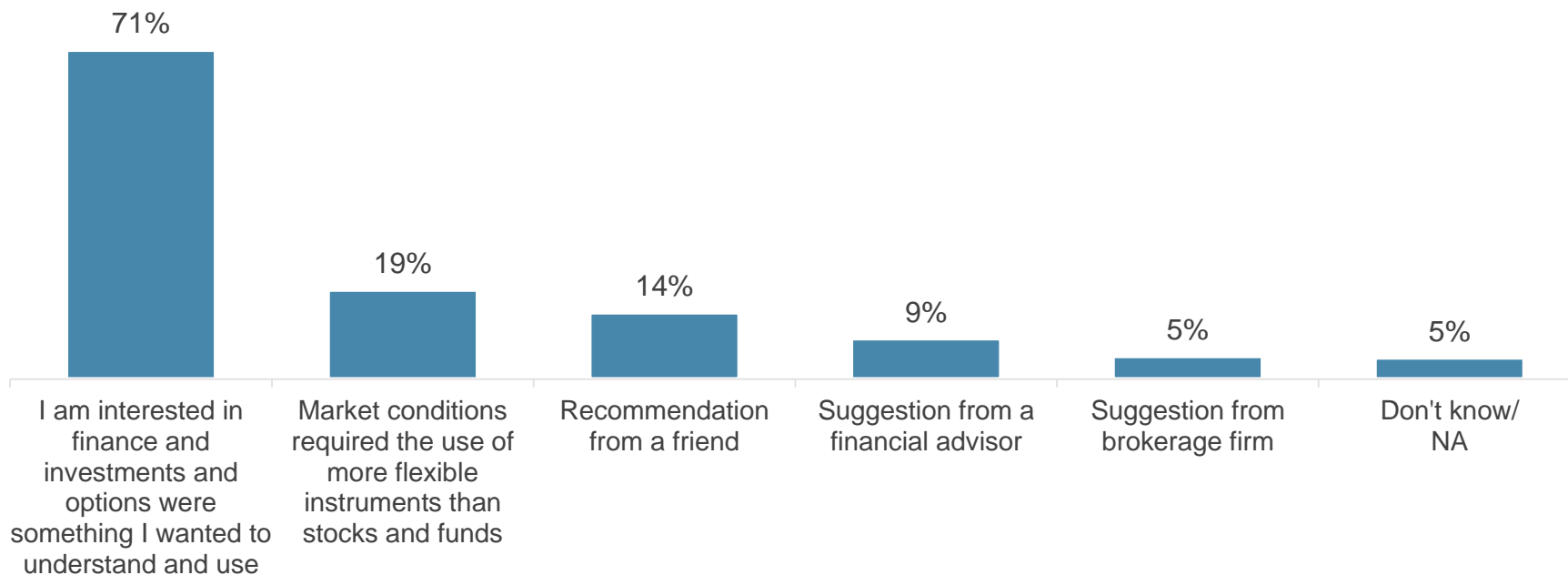
# Primary Reason for Trading Options



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,118 respondents.



# Drivers for First Options Transaction



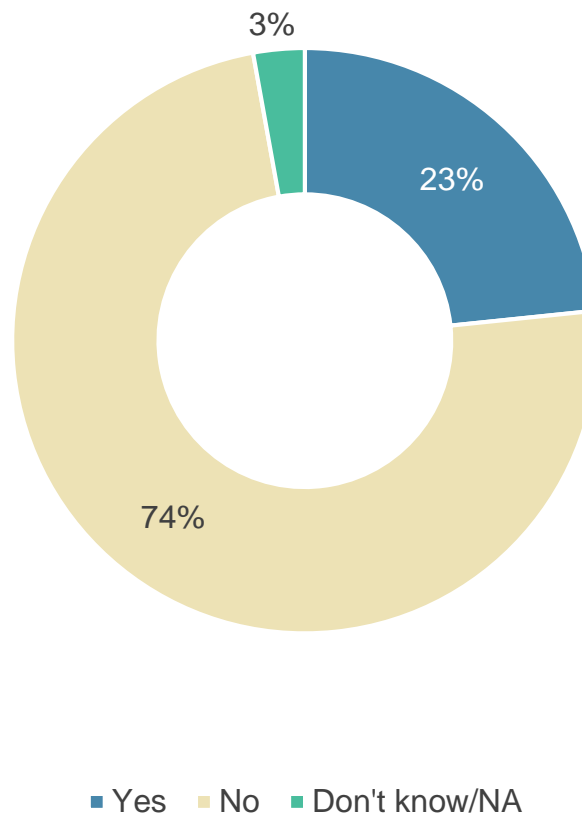
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,129 respondents.



# Options Non-Users

# Use of Options in the Past

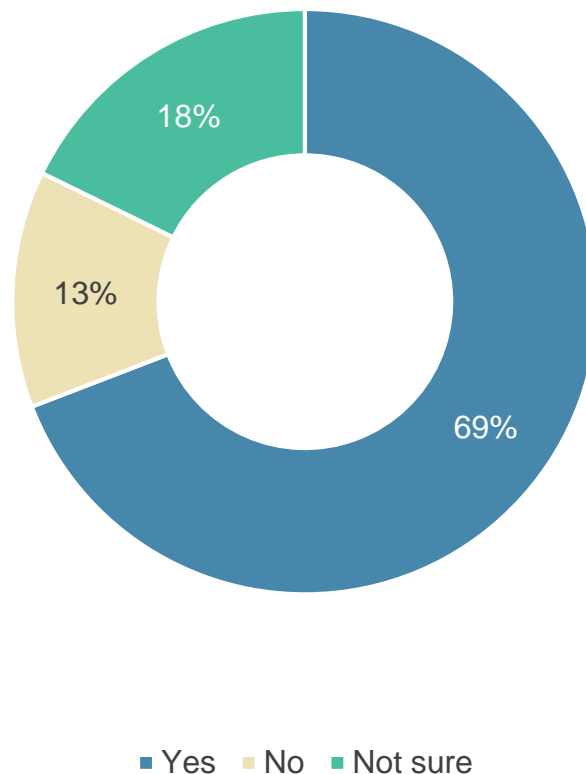
## Have You Ever Traded Options?



Source: Greenwich Associates 2020 Options Market Research Study. Based on 458 respondents.

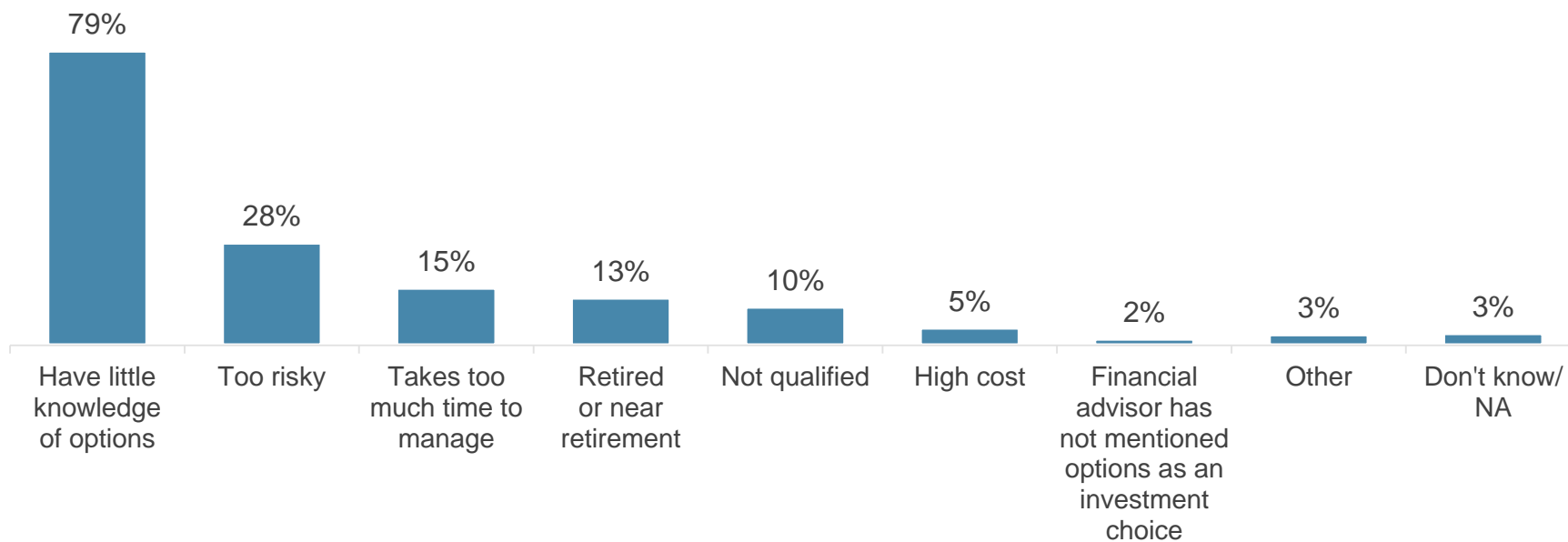
# Consideration of Trading Options Again

## Would You Trade Options Again?



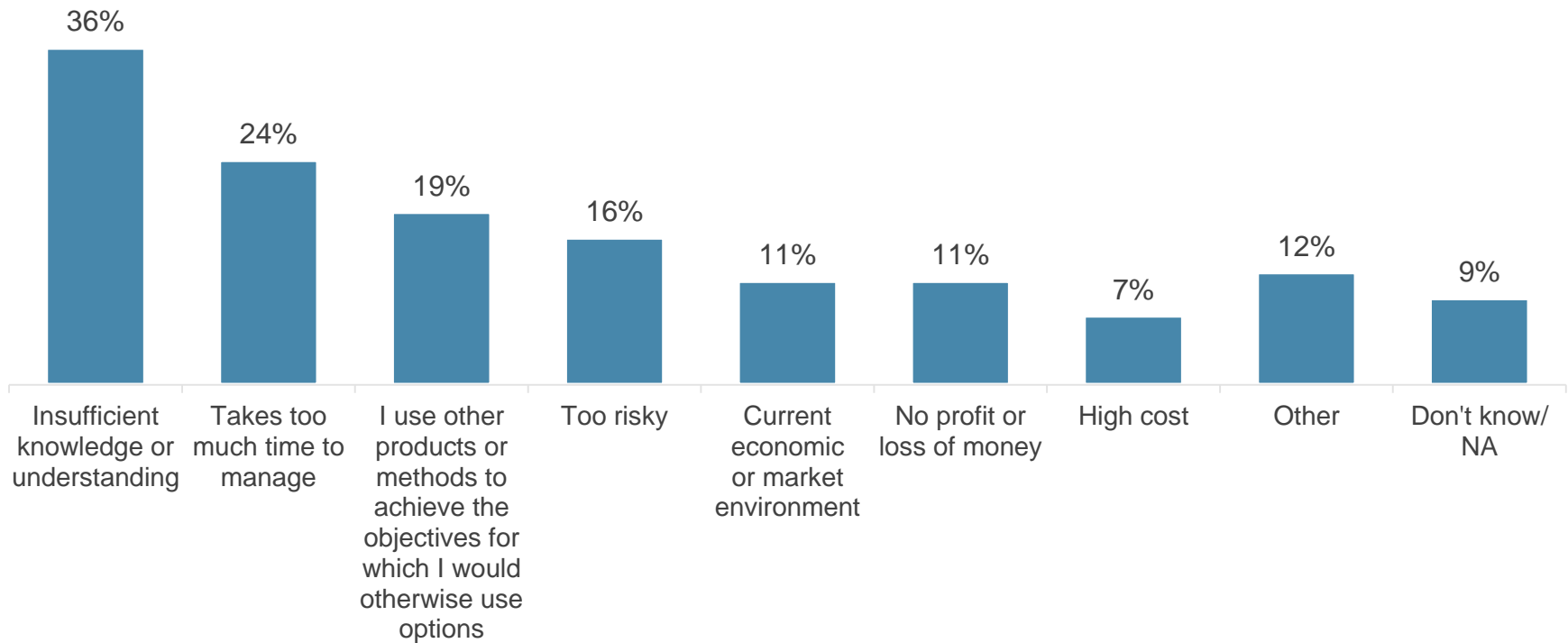
Source: Greenwich Associates 2020 Options Market Research Study. Based on 107 respondents.

# Reasons for Never Trading Options



Source: Greenwich Associates 2020 Options Market Research Study. Based on 338 respondents.

# Reasons Given by Those Who Have Traded Options For Not Trading Options in Past 12 Months

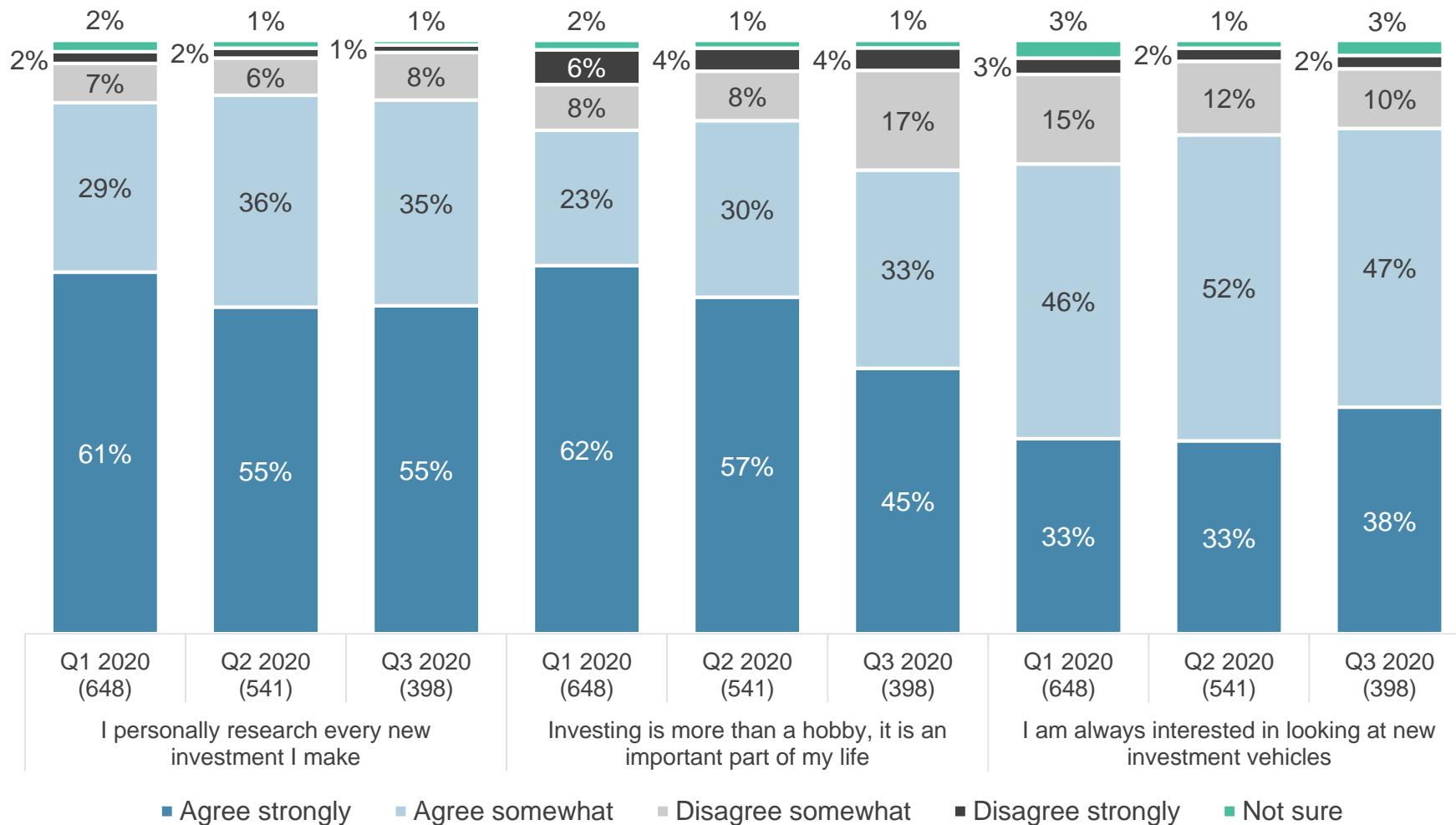


Source: Greenwich Associates 2020 Options Market Research Study. Based on 107 respondents.



# COVID-19 Natural Experiment Results

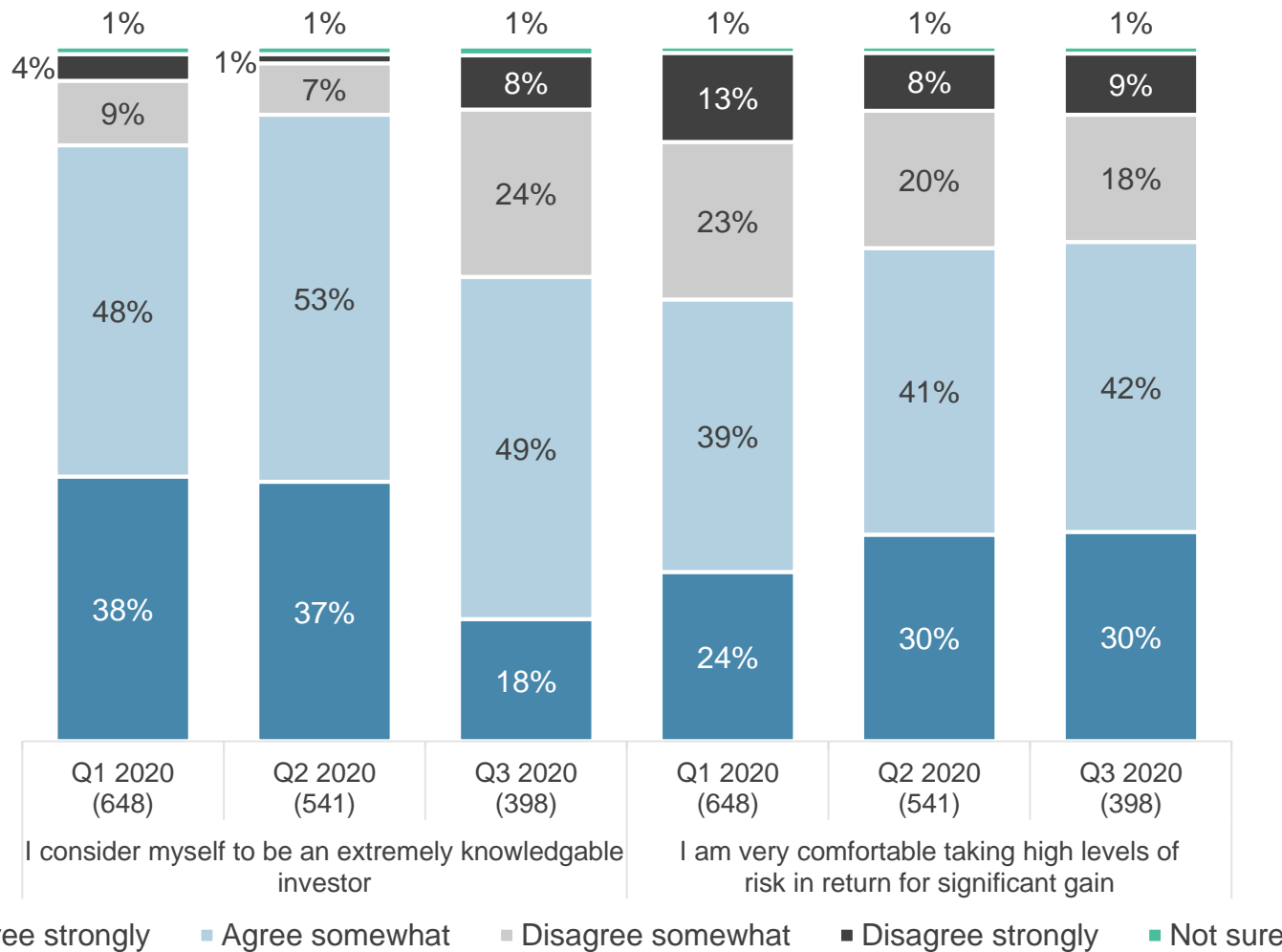
# Attitudes Towards Investing – By Date of Interview



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

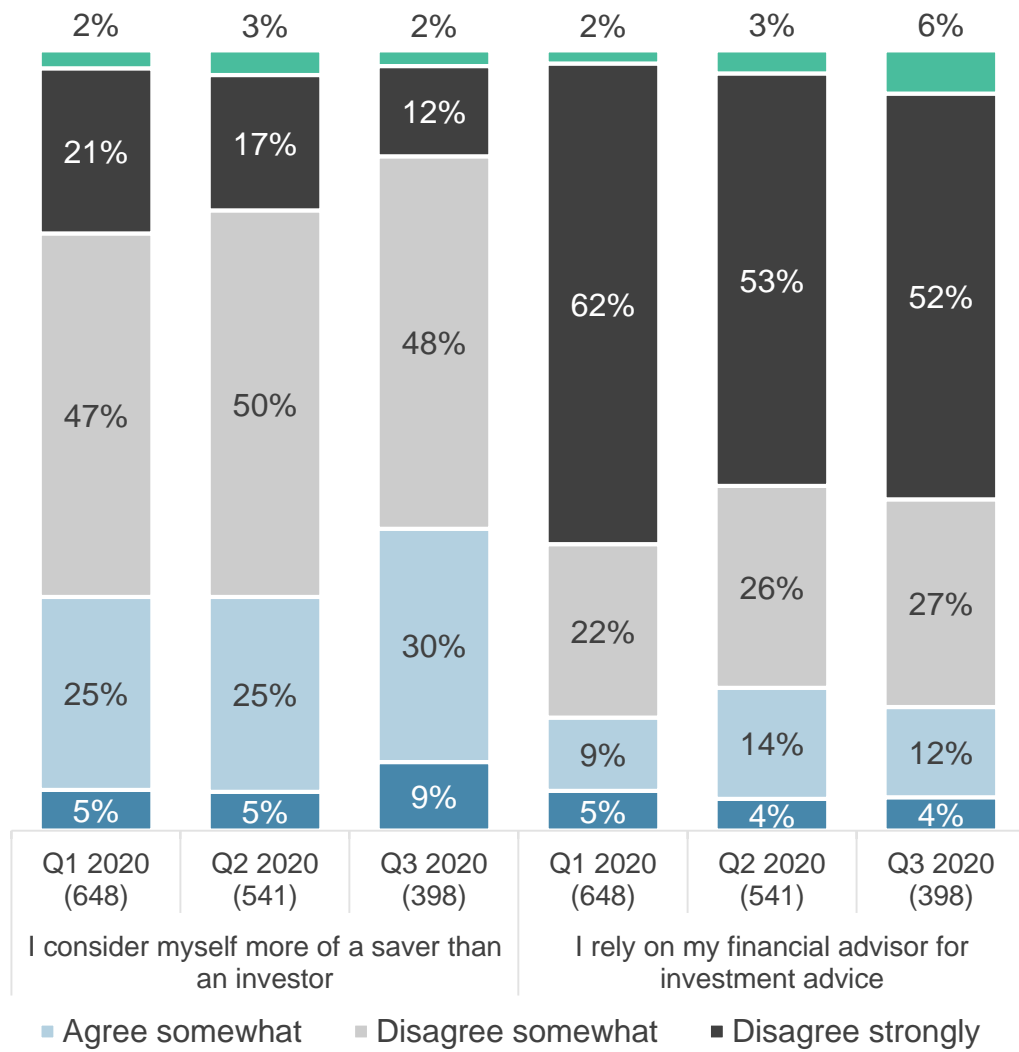


# Attitudes Towards Investing – By Date of Interview, Cont'd.



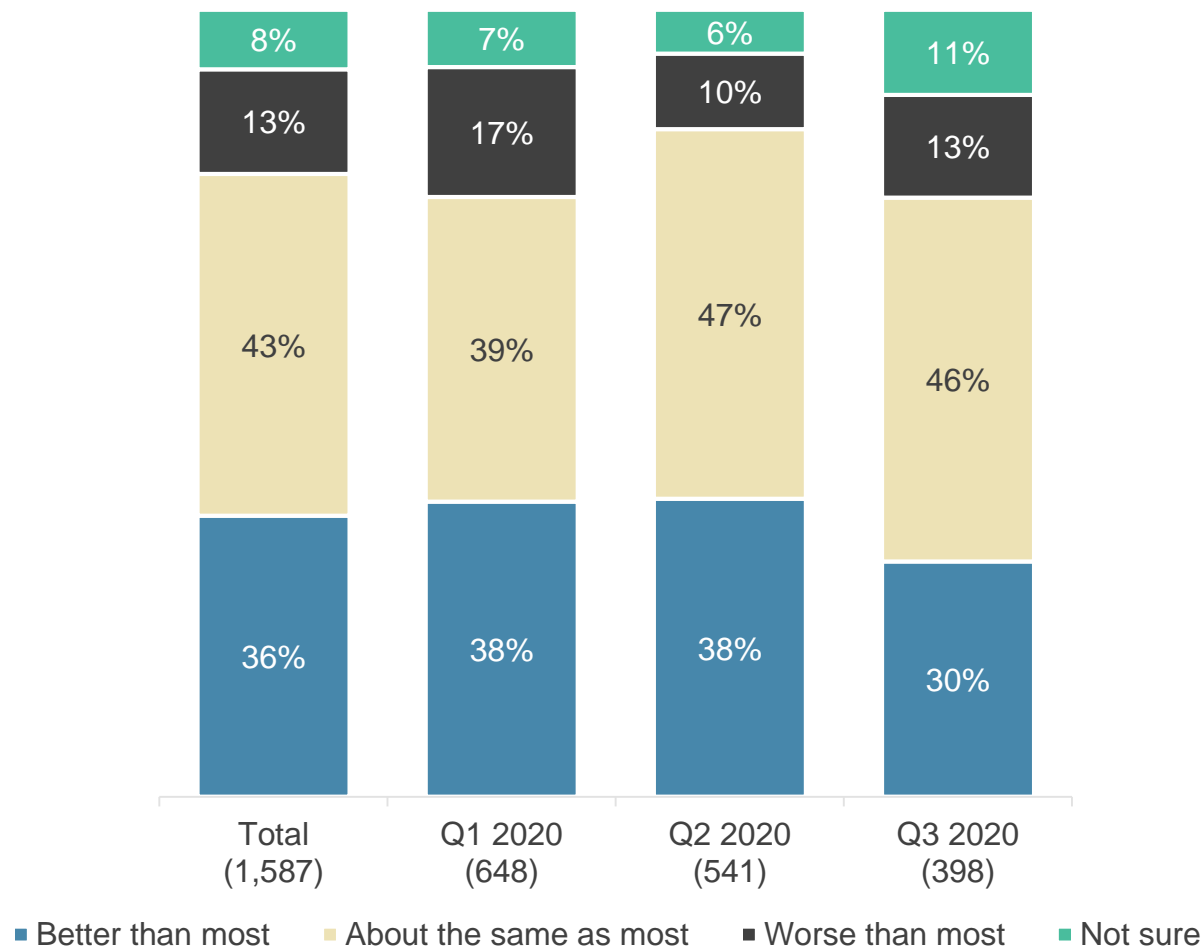
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Attitudes Towards Investing – By Date of Interview, Cont'd.



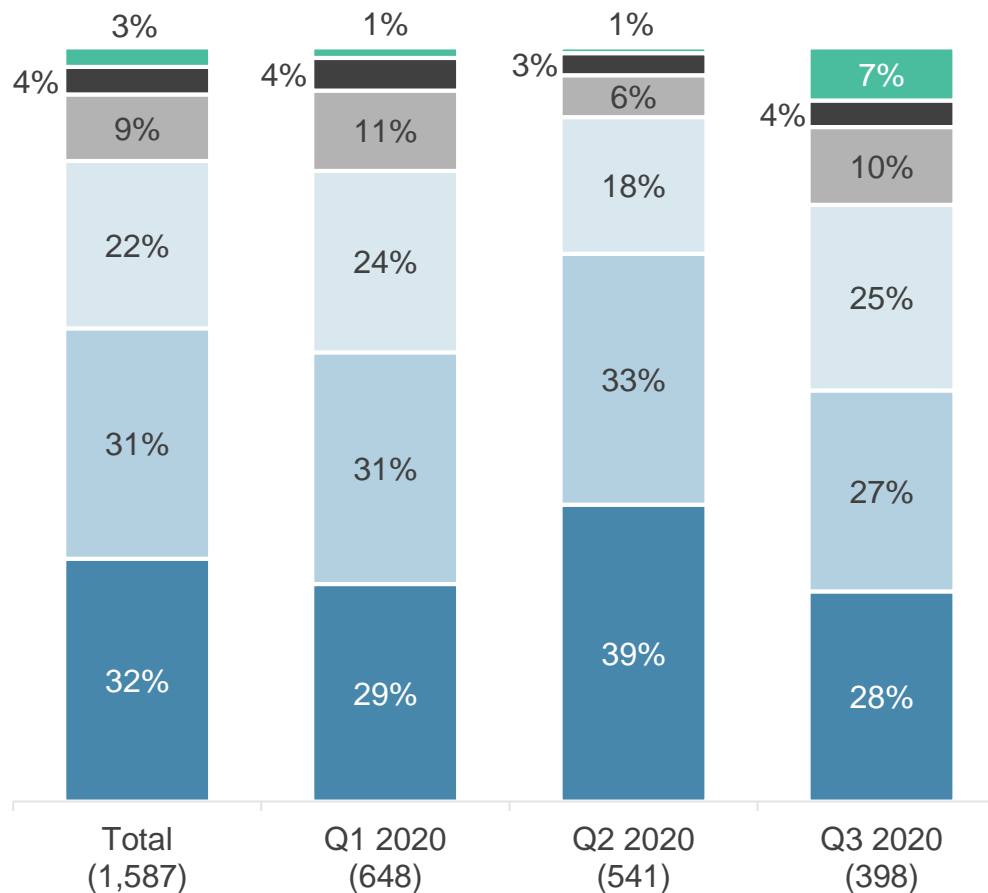
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Self-Assessment of Investment Performance Over Past Two Years – By Date of Interview



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

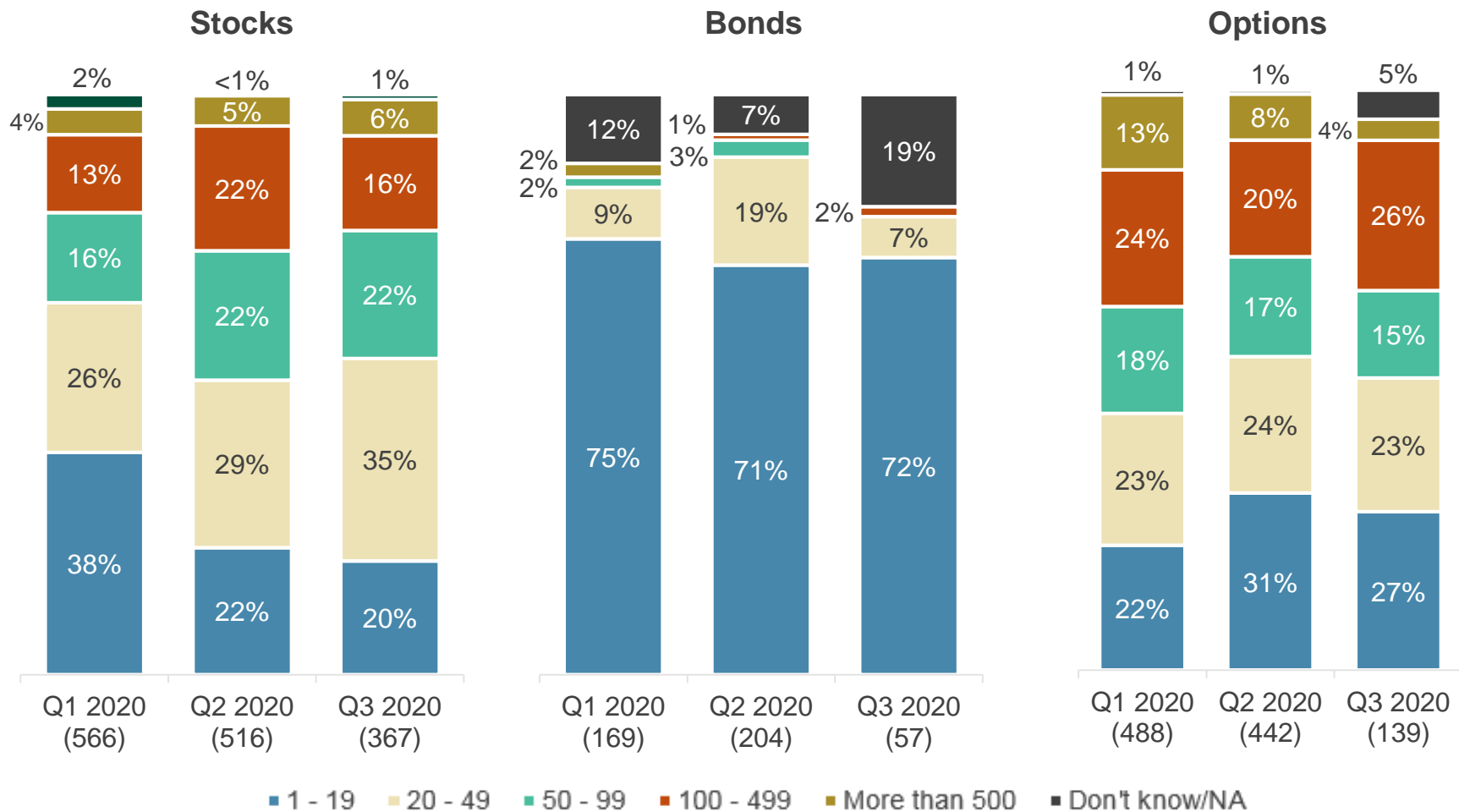
# Level of Confidence, in Investing – By Date of Interview



■ Extremely confident ■ Very confident ■ Confident ■ Somewhat confident ■ Not at all confident ■ Don't know/NA

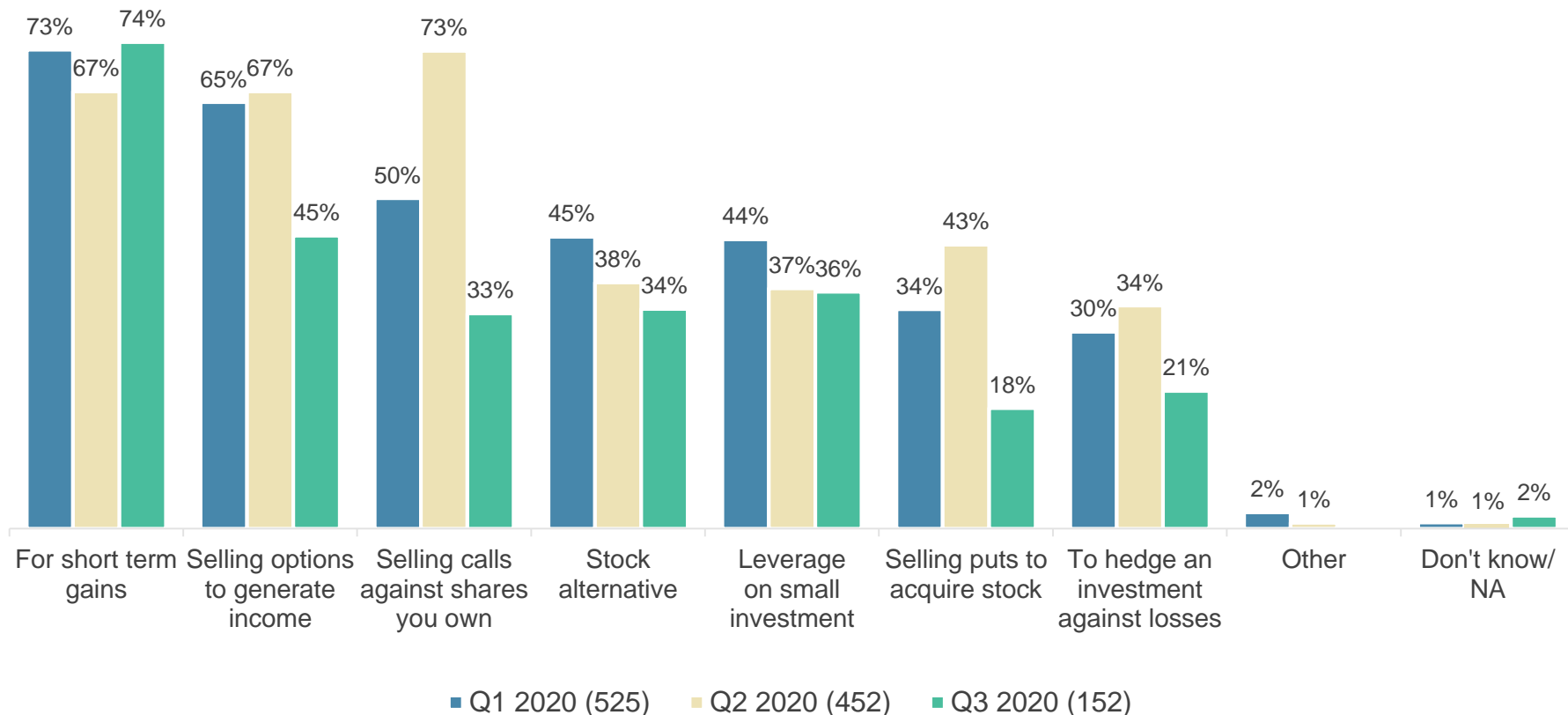
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,587 respondents.

# Number of Trades Executed Over Past Year – By Date of Interview



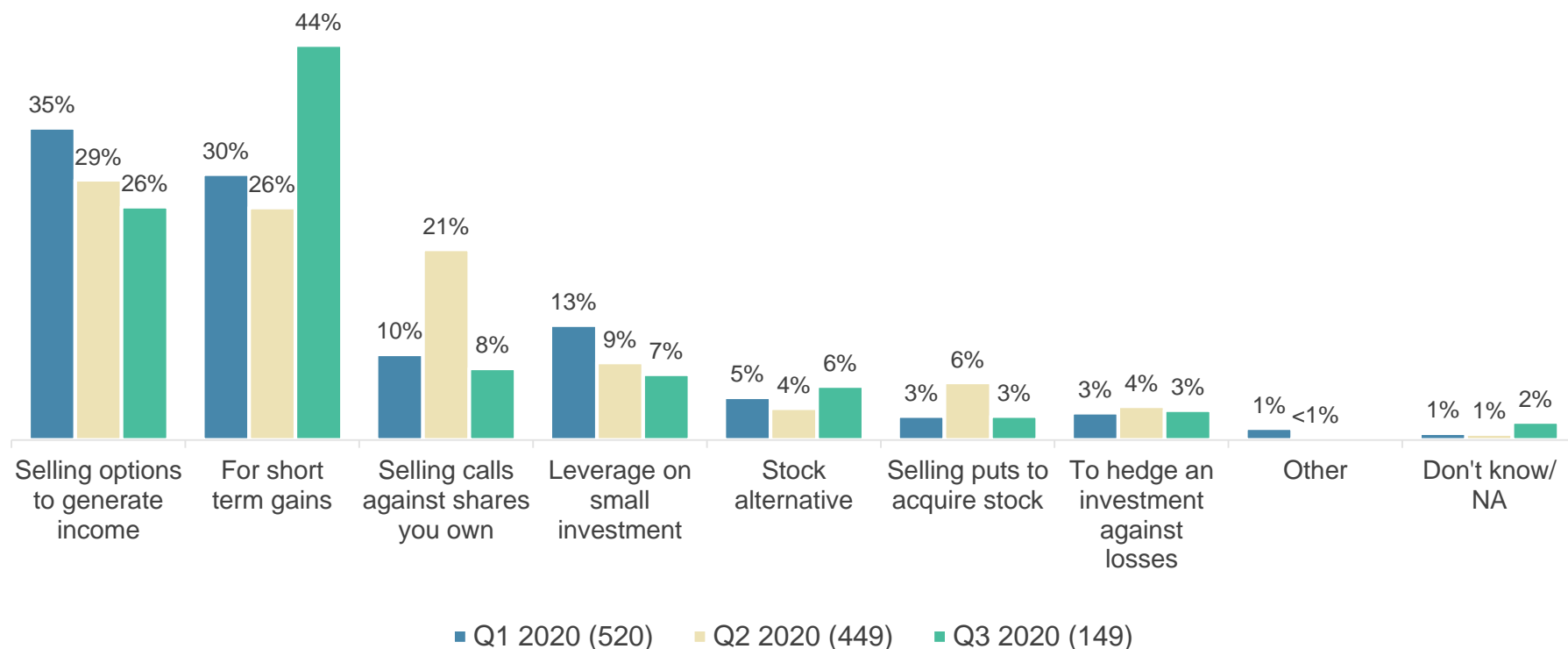
Source: Greenwich Associates 2020 Options Market Research Study.

# Reasons for Trading Options – By Date of Interview



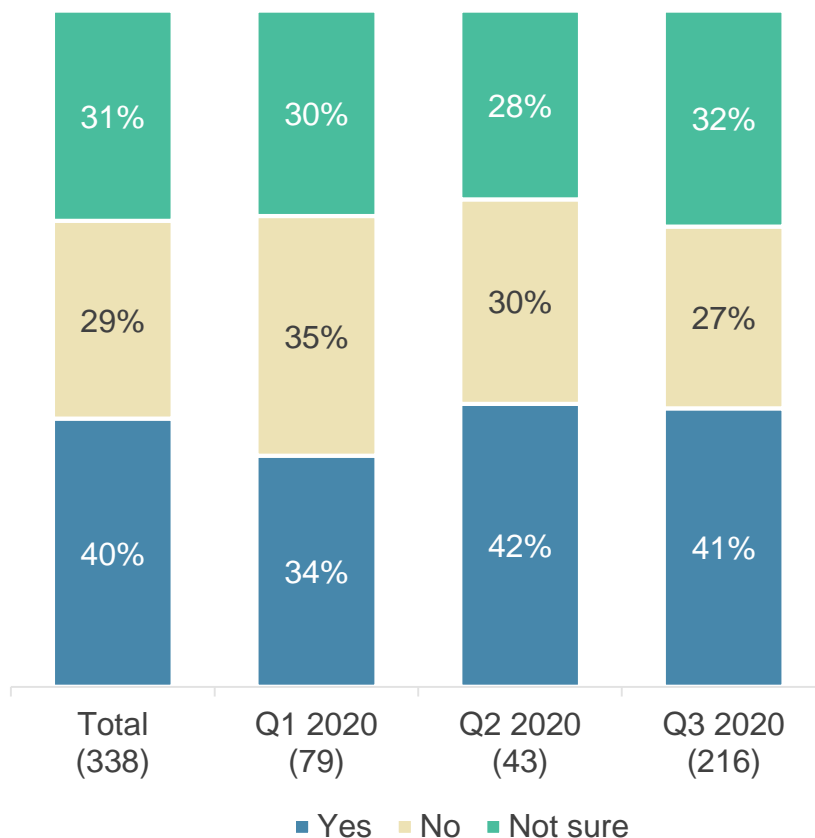
Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,129 respondents.

# Primary Reason for Trading Options – By Date of Interview



Source: Greenwich Associates 2020 Options Market Research Study. Based on 1,118 respondents.

# Future Interest in Trading Options by Those Who Have Never Traded Them



Source: Greenwich Associates 2020 Options Market Research Study. Based on 338 respondents.



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