

# MARKETS IN MOTION

developments that matter in financial markets

## Investors in Equity Markets

"Individual investors have become far more powerful than anyone gives them credit for. Today, 85 million Americans invest in stocks. Collectively, that kind of buying and selling power can move markets."

**Maria Bartiromo**

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Ms Meena Kulkarni  
 Tel: +91 22 6731 8842  
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### Introduction

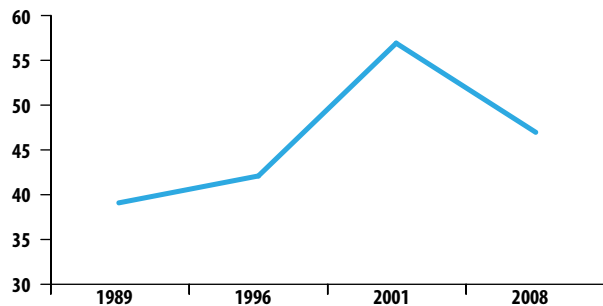
The market capitalization of the world's stock markets nearly equals the world's GDP (\$47 trillion to \$58 trillion in 2009). Equity market participation has created enormous wealth for investors. Over a decade, the number of investors has nearly doubled in many countries, including China, Germany, the US, and, to a lesser extent, Korea. Share ownership in Central European (transition) economies was boosted by the massive privatization drive that was implemented in the early 1990s.

However, the recent financial crisis and the stock market volatility have had a significant negative impact on the number of investors participating in the markets the world over. According to the available data, the level of participation in the markets across the globe has declined from the peaks of mid-2000s, suggesting that investors are now more cautious about their decision to participate in the markets. The declining trend in share ownership in mature markets is also mirrored in emerging markets.

### Trends in Mature markets

In the US, while ownership of equity and bonds increased dramatically from the 1990s, the appetite has declined over the last couple of years. Even then, in 2008, with nearly half the households in the US owning shares, it was well above the 36 percent level in 1989. The slowdown and decline in interest for equities commenced after the dotcom bubble. Between 1989 and the peak of 2001 more than 25 million households joined the equity markets. Later on, nearly 7.4 million households retreated from the markets.

### US: Investor Household % of total Households



Source: SIFMA

In Australia, which conducts ownership studies at regular intervals, 41 percent of the adult population owned shares in 2008 (6.7 million) down from 55 percent in 2004 (8 million), underscoring the investor response to the volatile markets. While the UK had 10 million investors in 2005-06, the challenging market environment promoted a million to retract from this

investment avenue. In Germany, investor participation peaked in 2000 to 11.8 million and has consistently declined to 10.3 million after the dotcom bubble.

### Emerging Markets

China saw the proportion of population investing in the capital markets increase to 139 million investor accounts. In a decade, the number of investor accounts has increased by 190 percent. In 2006 alone investors opened 57 million accounts. In the five-year period between 2004 and 2008, 10 percent of Hong Kong's investor population withdrew from the markets. Close to 1.5 million investors participated in the equity and bond markets in Hong Kong in 2008.

Year	1999	2000	2001	2003	2004	2005	2006	2007
% of investor Population in China	3.9	4.9	5.5	5.6	5.8	6.1	6.2	10.5

Source: China Securities Regulatory Commission: China Capital Markets Development Report

### Cross-Country Comparison

Countries	Latest Year available for	% of investor population
Malaysia	2005	39.2
Czech Republic	2005	29
Hong Kong	2008	21
UK	2008	14.7
Germany	2007	12.5
China	2007	10.5
Korea	2009	9.6
South Africa	2005	2.63
Mauritius	2007	2.56
Brazil	2007	1.62
India	2008	0.7
Argentina	2005	0.52
Bangladesh	2007	0.46

Internationally, India does not compare favourably with other countries on the number of participants in the equity markets. Incidence of share ownership is much higher in most countries than in India. According to the Swarup Committee report, there were eight million investors in India in 2008; a steep decline from the NCAER-estimated 21 million investors in 2003. Enlarging the scope of financial inclusion to include participation in the capital markets will provide an opportunity to many more potential investors to create wealth.

Contributed by Shilpa Puri

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FT Knowledge Management Company Limited

Exchange Square, 1st Floor, Suren Road,

Chakala, Andheri (East), Mumbai - 400093, India.

Tel: +91 22 6731 8888 • Fax: +91 22 6726 9541

Email: [marketsinmotion@ftkmc.com](mailto:marketsinmotion@ftkmc.com) • Website: [www.ftkmc.com](http://www.ftkmc.com)

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