



LimmatWealth

MEMO

Financial Market Update

Countries / Regions	2020 YTD	Since Feb 20th	Maximum Drawdown	Return since 2020 Low
Switzerland	-0.8%	-6.1%	-26.3%	27.5%
Germany	-1.9%	-5.8%	-38.8%	53.9%
Eurozone	-10.8%	-13.5%	-38.3%	40.1%
United Kingdom	-18.5%	-17.0%	-33.0%	23.9%
United States	4.7%	-0.4%	-33.9%	50.8%
Japan	-1.7%	-0.6%	-29.3%	40.5%
China	9.2%	11.6%	-10.6%	24.8%
Asia ex Japan	3.6%	4.1%	-27.2%	43.0%

Source: Limmat Wealth, Bloomberg as of August 13, 2020

Equity markets around the world continued their upward trend in the first half of this month. Equity markets in Europe (+5.4%) and the United States (+3.2%), as well as those in Switzerland (+2.7%) and Asia (+2.3%) rose significantly. These positive returns are a little difficult to explain. Everything negative is simply ignored at the moment. This also applies to the political and legal imponderables with regards to the latest Corona aid that US President Donald Trump had announced. After negotiations in Congress on a new Corona aid package failed, Donald Trump ordered a number of aid measures by decree. And so, in the middle of the pandemic, some equity markets are now almost at their all-time highs. This is attracting more and more new, inexperienced retail investors.

In the United States and also in Switzerland, there was a considerable increase in the number of small investors during the Corona crisis. Plenty of free time or boredom during the lockdown or in the home office, simple trading via mobile banking (app), and almost steadily rising share prices since mid-March attracted thousands of small investors. The popular American online broker app Robinhood has opened over three million new accounts so far this year and the Swiss online broker Swissquote also opened more than 50,000 in the first half of the year. These so-called Robinhood investors are playing the leading role in the current bull market, while many institutional investors are waiting on the sidelines.

The Robinhood app enables investors to trade American stocks, ETFs (Exchange Traded Funds) and cryptocurrencies (e.g. Bitcoin) via their smartphone and free of charge.* Investors can invest in fractional shares via Robinhood, so even the purchase of expensive shares is possible. With this attractive offer, Robinhood has won over 13 million users to date with an average age of 31 years. Half of them have never invested in equity markets before. Using the app makes it easy to buy or sell securities with just one click. Features such as confetti and notifications with emojis also contribute to success. All of this gives the impression that equity market transactions are like a game. In addition, at Robinhood, more complex and much riskier

financial products than equities can be traded and access to them is simple. The online broker's young customers neglect things such as risk spreading and diversification. Many customers are driven by the desire to make money fast and the search for thrills. According to the New York Times, Robinhood users speculate in the riskiest financial products and do so more often than clients of other brokers. Their inexperience can lead to extraordinarily high losses, especially when using derivatives and borrowed money.

Many market observers are meanwhile unsure whether the hype surrounding the trading app will continue. If the volatility in equities subsides in the future, events such as concerts or sporting events come back, and many users make losses with their trades, then many will probably stop trading. Experts are predicting a blatant collapse in hyped securities and the end of the Robinhood market in the near future. The Robinhood Markets will end in tears - this describes the attitude of numerous experts. Investor sentiment can change every day, and then the Lemmings run in the other direction. For example, when a second wave of COVID-19 hits Europe and the United States in the fall, or when the economy doesn't really pick up despite government stimuli.

There are now roughly 21 million reported COVID-19 cases and 760,000 deaths worldwide. The number of cured patients is at 13 million.

Please do not hesitate to contact us if you have any questions.

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Limmat Wealth Ltd

* This is possible because Robinhood has developed its own clearing system and is therefore no longer dependent on third party providers. Robinhood earns its money mainly through so-called "payments for order flow". Market makers pay e-brokers like Robinhood for the right to conduct client trades. The broker then receives a small fee for the routed trades. This is very attractive when investors are as active as they have been this year. Robinhood is a privately held company and is currently valued at USD 8.6 billion.