Retail Investor
Quarterly Trading Trends

pulse

by capital·com

Analysis of Q3 2022 trading
data from capital.com

Foreword

Peter Hetherington
CEO, Capital.com

More and more people today are trading on the financial markets with their own money guided by their own insights, thanks to the advent of digital platforms which level up access to the financial markets. The choices made by these everyday retail investors have the potential to offer a real insight into what is becoming an increasingly important global movement.

At Capital.com, our unrivalled database offers a unique window into the behaviour of retail investors, the world's fastest-growing investor class.

This latest Pulse by Capital.com quarterly report – drawn from the exclusive data contained in our sector-leading trading platform – provides analysts, financial professionals and journalists with a fascinating deep dive into the way the world's retail investors are thinking.

This quarter, the main themes emerging from the data have been the continuing popularity of short positions among Capital.com traders and the fact that more of our retail investors are choosing to use stop-loss orders. This has risen quarter-on-quarter by 1.4%, confirming that the use of risk management tools is gaining popularity after a steady period of decline between 2019 and 2021. Capital.com's determined effort to provide improved trader education through guides and videos has clearly gained traction in this area.

For more information about Capital.com and our global community of traders, visit our website's **Media Centre**.

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Introduction

Across the markets

Investors can trade more than 6,500 different instruments on Capital.com platform across many different markets: stocks and shares, exchange-traded funds, currencies, cryptocurrencies, commodities and indices. Capital.com has group entities located in the UK, Cyprus and Australia that are authorised and regulated by the Financial Conduct Authority, the Cyprus Securities and Exchange Commission and the Australian Securities and Investments Commission respectively.

Traders around the world

More than three million people have applied for an account with the Capital. com group.

Some 13% of Capital.com's traders are female, though this proportion varies considerably from location to location.

As of 2022, the Capital.com group reported trading volumes in excess of $772bn.

Highlights from this report

Selected key insights drawn from the trading data in Q3 2022:

Despite the summer stock market rebound, short positions remained popular in Q3 at 39% of trades placed. A hint of caution, however, came with the average trading length for short positions – 9.6 hours – compared with the 44 hours for long positions. The top three shortest-held assets were Nikkei 225 (J225), Nasdaq 100 (US100) and the Dow Jones Industrial Average (US30).

The popularity of crude oil trading, especially in Europe and the Middle East, grew in the July-September period and made crude oil the most traded instrument of Q3. Investors in Europe and the Middle East led the way in natural gas trading too, which rose in all regions. However, the sentiment for gas may have shifted as most traders (59%) took long positions in Q3.

The total volume of US dollar (DXY) Index trades on Capital.com was up 322% since the start of the year. Retail traders' view of the dollar's future changed after sentiment for the DXY in mid-August when the percentage of short trades fell to 29%.

The market volatility of the EUR/USD forex pair came to a head in July when the volume of EUR/USD trades rose 68% in Europe and 90% in the Middle East, pushing the average volume of EUR/USD trades up 13.6% in Q3 compared with Q2.

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Introduction

Highlights from this report

Equity transaction profitability fell by 11% in August – mainly driven by AMC Entertainment (which lost 60% of its stock value in a market sell-off sparked by rival Cineworld filing for chapter 11 bankruptcy) and the completion of a 3-for-1 stock split for Tesla. In contrast, profitability on currency, commodity and index markets remained stable during Q3.

The responsiveness of retail investors was highlighted in Q3 with the surge in interest with Bed, Bath & Beyond (BBBY). In August alone, our Capital.com platform witnessed an 11,500% increase in BBBY stock trading volume and a 2,345% increase in the number of traders.

Capital.com data trends suggest that retail traders have responded swiftly to world events, switching markets as required to apply their personal insights into the issues.

Q3 2022 trading trends

Turning back the decline in stop-loss orders

A final important aspect to note is the increased use this quarter of a key risk management tool that lets retail investors automatically exit a trade before losses mount up: stop-loss orders.

After a concerted effort with trader education guides and videos, the use of stop-loss orders on our Capital.com platform has risen this quarter – covering 12.3% of trades. For more on this, see Risk management: Stop-loss order use increases in Q3 below.

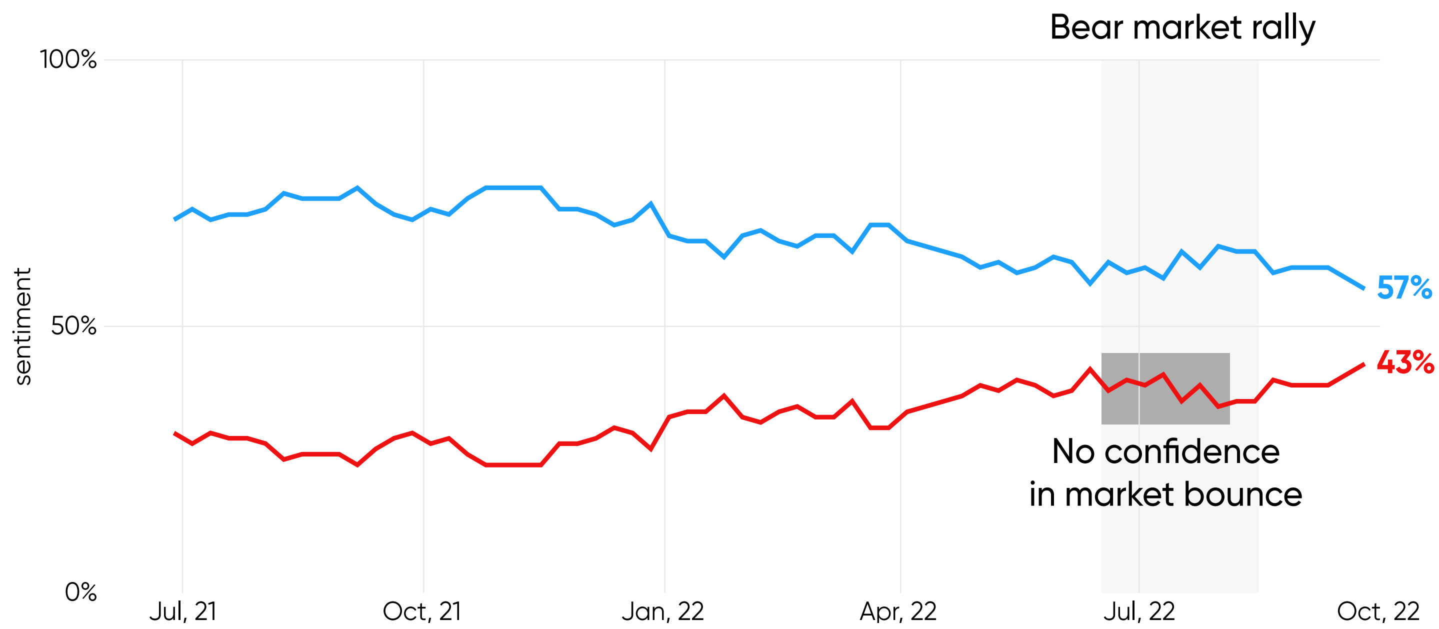
Sentiment - no confidence in equity market bounce

Even as stock markets rebounded during July and August, short selling remained as popular a trade in the third quarter as during the second – suggesting traders put little faith in the bounce.

Shorting strategies enable traders to attempt to profit from falling asset prices, which is a simpler process on CFD trading platforms such as Capital.com than it is when using a traditional broker.

No confidence in market bounce

Weekly long and short positions (%)



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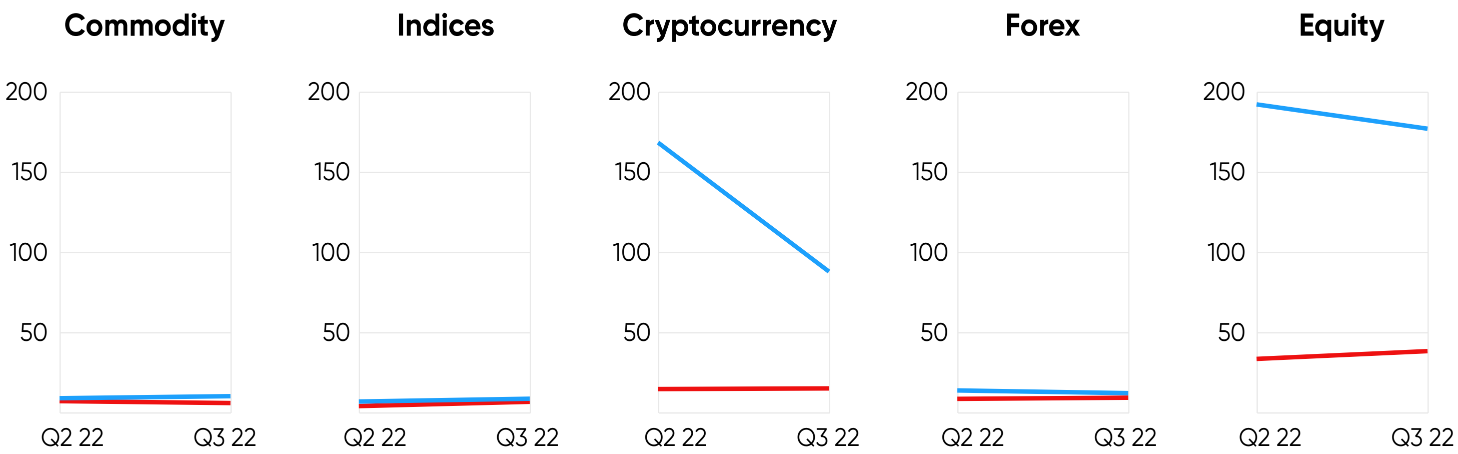
Q3 2022 trading trends

As in the April-June period, 39% of third quarter trades on the Capital.com platform were short. Weekly data showed short selling strategies at a record high until mid-July – despite an 8.4% rally on the S&P 500 (US500) between 7 July and 16 August.

But short traders displayed some caution. The average trading length for short positions was 9.6 hours, compared with 44 hours for longs, suggesting few were willing to take overnight short positions if trades fell in line with the market bounce.

Big drop in trade length for crypto and equity long positions

Average trade length by market and trade position in Q1 and Q2 2022



Piero Cingari, Markets Specialist at Capital.com, said:

"Markets remain jittery and despite the summer's short-term bear market rally, traders have remained bearish, with the proportion of short positions remaining near all-time highs.

"The lengthening of short equity positions by 14% on the quarter might reflect a growing tactical conviction that the major downtrend in stocks remains well in place."

Indeed, overall trade length fell 47% in the quarter, adding to the theme of a lack of confidence in the equity market rally.

The shortest-held assets – all equity indexes – also told of the 'jittery' mood with the top three instruments:

Nikkei 225 (J225) – held for an average 3.9 hours

Nasdaq 100 (US100) – 5.7 hours

Dow Jones Industrial Average (US30) – 5.7 hours

The longest-held instruments by trade length were predominantly cryptocurrencies, led by DGB/USD – held for 37 days.

The longest-held index for 116 hours was the VIX, suggesting traders tried to benefit from the increase in market volatility during the period.

Among commodities, platinum was held the longest (93 hours), while in the forex market a trio of EM crosses were held for 50 hours apiece: USD/TRY, EUR/HUF and USD/HUF.

Q3 2022 trading trends

Sentiment per market

Index: Despite the 8.4% bounce for the US500 during July and August, traders continued to short stock indexes heavily. Indexes showed the highest shorting sentiment since February 2020.

Forex: Currency trading displayed the second-highest levels of shorting sentiment in the third quarter, driven (as during April-June) by yen trades as the Japanese currency continued to sink against its rivals in the wake of benign inflation and dovish central bank policy.

Commodities: This, the third-highest shorting sentiment, saw short positions in oil and natural gas as turbulent conditions hit the energy markets during the quarter.

Cryptocurrency: Showed the second-least shorting sentiment on the Capital.com trading platform. Stripping out the massive volumes of BTC/USD (40% of short trades) and ETH/USD (39%), there were some heavily, long-traded altcoins, among them ADA, XRP, and meme favourite DOGE, held for an average position length of 216 hours with just 16% short trades.

Stocks: The least shorting sentiment was seen among equity traders, buoyed by long-positions on some of the year's most popular meme stocks. While Tesla was the most-traded, there were notable trading volumes in Bed, Bath and Beyond (27% short trades), AMC (18%) and GameStop (17%).

Change in market interest

Commodities and equities started to show signs of strength in August (in terms of traders and trades). The increase was primarily driven by Europe (for both markets) and the Middle East (only commodities).

Compared with Q2 2022, cryptocurrencies saw a slight decrease in market interest of 4%, however this was less than the 9% dip that occurred in Q1. Q3 has been an uncertain period for crypto, as the bear market continued to bite amid the fallout from the depegging of TerraUSD in May, along with the Celsius Network, Voyager Digital and Three Arrows Capital controversies, as well as the threat of further US Federal Reserve interest rate hikes.

Meanwhile, indices also saw a reduction in trader activity, falling from 32% to 27%.

Piero Cingari, Markets Specialist at Capital.com, said:

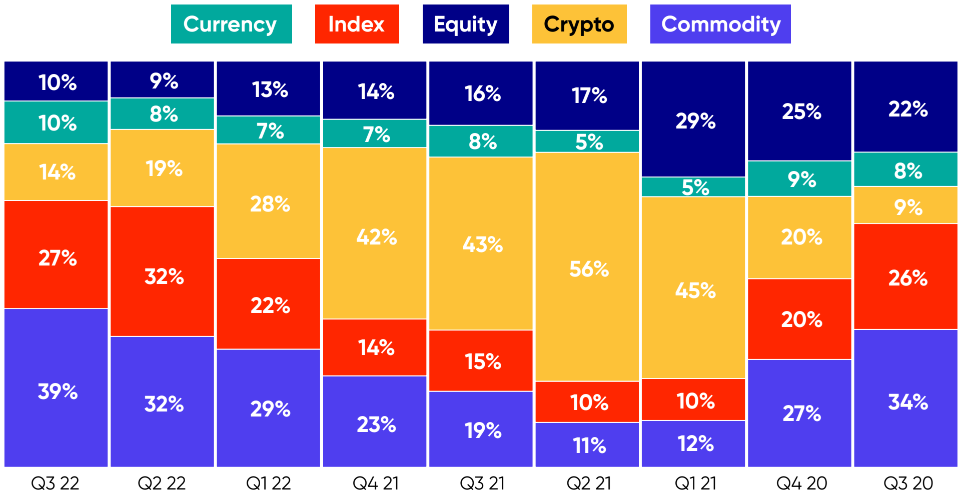
"Commodities and currencies continue to attract the interest of retail traders in light of the most recent intriguing market developments. The relative weight of these two markets continues to increase in our platform.

"Commodities accounted for 39% of trades in Q3 2022, up from 32% at the start of the year, with crude oil, gold, and natural gas accounting for the lion's share of this market. Forex has surpassed 10% market share for the first time, up from 8% in Q1.

"Natural gas price increases and the collapses of the euro and the pound dominated the financial headlines this summer, sparking the attention of retail traders."

Share of index and commodities trades is increasing

Trades per market as percentage of total trades



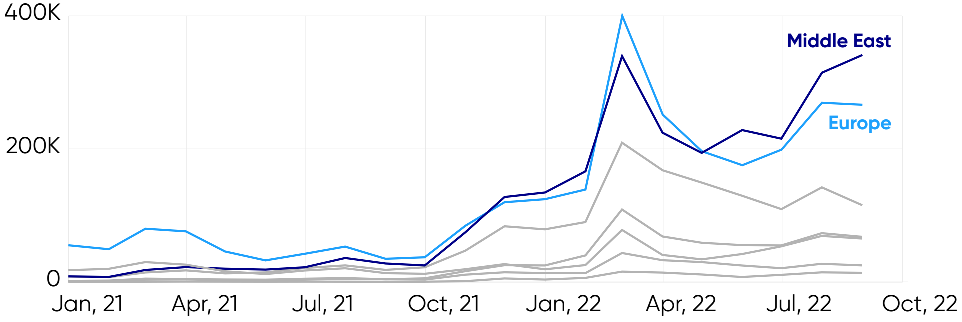
Q3 2022 trading trends

Middle East and EU lead oil and gas trades

Crude oil trading grew in popularity in the July-September period, particularly in the European Securities Markets Authority (ESMA) Europe region and the Middle East, with traders looking to capitalise on market opportunities as the global energy crisis continued to unfold.

Trading crude oil soars in the Middle East and EU

Year to date crude oil trades



Additionally, third quarter crude oil trades also beat crypto trades for the first time in seven quarters, according to the data from the Capital.com trading platform.

Data from the report also revealed that crude oil was the most popular instrument to trade on Capital.com in Q3.

Piero Cingari, Markets Specialist at Capital.com, said:

"First of all there is a very strong legacy, which saw US oil become the second most traded asset after US100 in the second quarter of the year. The fluctuating performance of oil in the third quarter continued to spark traders' interest. US oil trading volumes in terms of number of trades remained broadly flat, but at a very high level, during the quarter."

The latest data is more closely aligned with that from Q1 2022, when there was a mass influx of oil trading as investors jumped into crude in droves following Russia's invasion of Ukraine on 24 February.

However, volumes dropped 22% in Q2 after retail traders lost interest in crude, but seemed to consider there were opportunities in the world's other critical fossil fuel – natural gas, which Europe is heavily reliant upon for thermal energy and electricity generation.

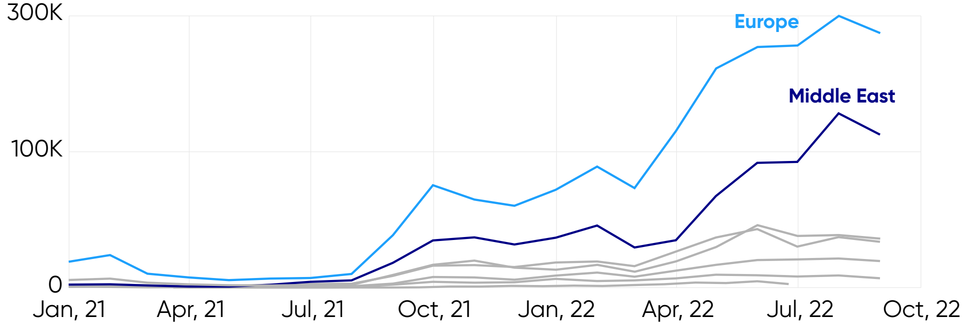
Natural gas trading momentum continued in Q3 with trades increasing across all regions, particularly in Europe and the Middle East. However, data from the Capital.com platform revealed that sentiment slightly decreased across all regions – 59% of traders overall took long positions in Q3 on the commodity, down 2% on the previous quarter.

"Natural gas price movements have not been consistently on an uptrend, as they were during the past winter. Some significant pullback has occurred in the third quarter. Gas prices in the United States fell from nearly $10/MMbtu on 26 August to $7.75/MMbtu in mid-September.

"The volatile performance of US natural gas prices has called into question the market's overall bullish sentiment, increasing the percentage of bears," said Piero Cingari, Markets Specialist at Capital.com.

Natural gas trades increases

Natural gas trades across 2021 and 2022



Cingari also highlighted that throughout the quarter, natural gas was in the headlines.

"Europe was the epicentre of the gas crisis, with the Dutch TTF reaching record-high levels of €300/Mwh in late August. This naturally piqued the interest of traders in the natural gas market."

DXY: Traders flock to King Dollar

Retail traders' interest in the US Dollar Index (DXY) has skyrocketed as a result of the greenback's exceptional performance against every major currency.

Since the start of the year, the total volume of trades in the DXY index has increased by 322% on the Capital.com platform. All regions recorded a sharp spike in trade volume also in Q3, but the largest increase was in Europe, where the euro and the pound fell precipitously against the dollar.

Traders can use the DXY index to ride the dollar trend without committing to a specific position against another currency. The DXY began the year at 90 and had risen to 111 levels at the time our Q3 Pulse by Capital.com report was compiled, representing a 23% gain.

This has been the DXY's best yearly performance since 1981, when the then Federal Reserve chair Paul Volcker raised interest rates above 20%.

The DXY is on track to post its fifth consecutive quarter of gains – something not seen since 1997-1998 when crises and defaults plagued emerging markets, fuelling a rush to the greenback.

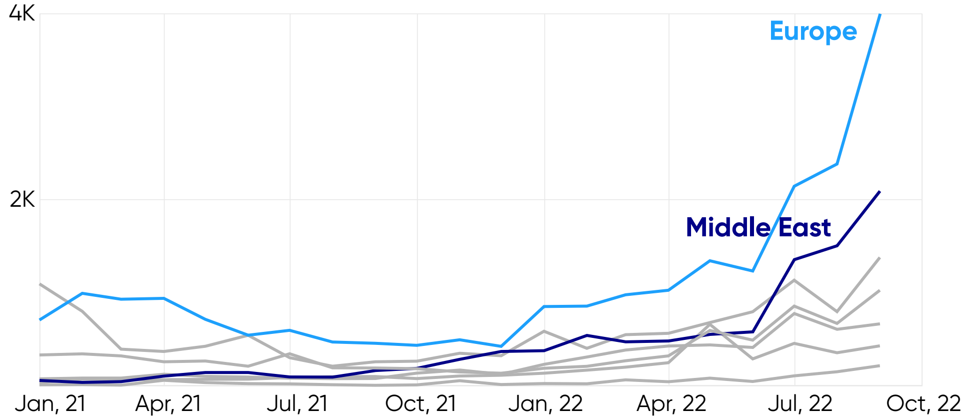
In the last year and a half, only a handful of assets have generated returns above consumer price inflation. These are natural gas, oil and the US dollar.

Looking at DXY sentiment, the percentage of shorts has been consistently below 50%, which indicates traders have been generally bullish, but short sentiment seems to have bottomed out around mid-August at 29%. As of mid-September, short trades accounted for 40% of all positions, indicating some loss of faith in the dollar.

Retail traders seem to be beginning to lose confidence in the dollar's ability to rise to new highs – and given the extreme levels it has already reached, they are beginning to increase their short positions.

DXY trades increasing across all regions

US Dollar Index trades across 2021 and 2022



EUR/USD: Buying on dips starts to emerge

The extraordinary volatility of the world's most traded forex pair (EUR/USD) has drawn traders' attention this year.

With a 13% drop from the start of the year until the end of September, the euro has had its worst year since its 1999 inception, due to widening rate differentials between the Fed and the European Central Bank, and the gas crisis affecting Europe far more than the US.

This summer, the euro fell below parity against the dollar for the first time since 2002, dominating market headlines and attracting significant attention.

The volume of EUR/USD trades increased by 68% in Europe and 90% in the Middle East in July alone – and high trading levels continued into August. The average volume of EUR/USD trades increased by 132% from the previous quarter, placing the pair among the top five most actively traded instruments in Q3.

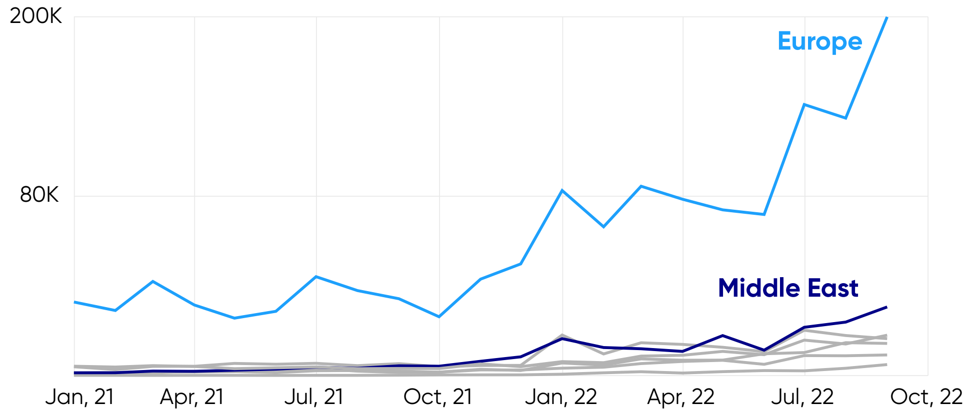
Regarding EUR/USD sentiment, Capital.com traders have taken a marginally contrarian stance, with the share of bullish positions increasing from 53% in Q2 to 56% in Q3.

Most of our traders appear intrigued by the prospect of buying the euro on dips, in the hope of profiting from a reversion to the mean following the sharp decline in 2022.

However, the market's price action has not yet shown any clear trend reversal in the EU single currency's bearish trend.

EUR/USD trades increasing across all regions

EUR/USD trades across 2021 and 2022



Equity profitability drop

Equity profitability on the Capital.com trading platform reduced 11% during August, while markets for commodity, index and currency remained stable. Much of this can be credited to moves in some highly traded stocks, such as Tesla (TSLA) and AMC Entertainment (AMC).

When news broke in mid-August AMC's main competitor, Cineworld, was filing for bankruptcy, it triggered a market sell off. Both lost more than half of their stock value in days.

Cineworld's strategic decision was to file a voluntary Chapter 11 bankruptcy to meet its restructuring aims. By the end of August, Cineworld lost more than 90% of its market value.

While AMC has half the debt percentage of Cineworld, market watchers knew it faced a similar burden.

AMC took a different path. It had already restructured some higher interest rate bonds earlier in 2022. It also managed cash flow during the Covid-19 lockdown periods with severe cost cutting and increased investment in streaming services.

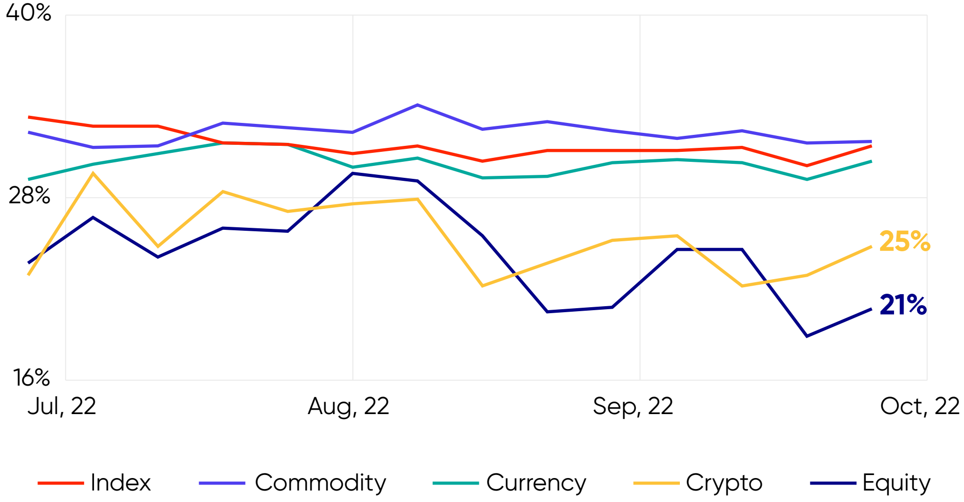
Perhaps this is why the AMC share value fell significantly less than that of Cineworld. AMC lost 60% of its value during August and has started to recover.

Meanwhile, Tesla completed a 3-for-1 stock split on close of trading 24 August 2022. A stock split traditionally does not affect the stock value, but our data found that on the day profitability dropped by 24%. This may be because investors became uncertain about how markets would react at the exact moment of the stock split.

The share value at close on August 24 was around $891. Next morning, it was trading at $302, in line with a three-way split. In the long term, profitability is expected to normalise.

Drop in equity profitability

Weekly profitability per market



Bed Bath & Beyond: Responsive traders in action

Meme stock Bed, Bath & Beyond (BBBY) rose from the dead in August as its stock price reached its highest value since April 2022. The stock was trading at around $23 on August 17, rising from $4.85 at the start of the month – a 300% jump.

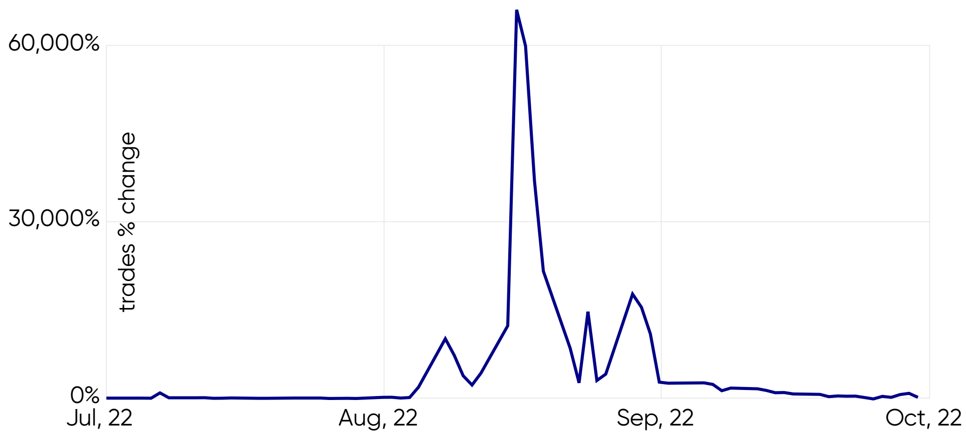
The Capital.com platform saw a BBBY stock increase of +66,054% in trading volume, mainly driven by trades in the UK and the European Securities Markets Authority (ESMA) Europe region.

This coincided with investments made by Ryan Cohen, co-founder and former CEO of Chewy and current chairman of GameStop, who had invested a 12% stake in BBBY through his VC firm RC Ventures.

BBBY was one of the highly traded stocks on our platform in Q3 with 27% of the trades being short positions. Often a stock held in a significant short position will face a short squeeze when prices start to rise. This comes when bearish investors buy back shares at higher prices to limit losses on short positions, which pushes prices and trading volumes higher. This price rally attracted new traders – as seen on the Capital.com platform, which recorded a 2,435% August increase in the number of traders.

Large increase in BBBY trading volumes

Percent difference in BBBY trading volume compared to July 1st 2022



GBP/USD: New UK prime minister and the 'Mini Budget'

The pound was one of the most-shorted instruments on the Capital.com platform in July-September, as it fell more than 7% versus the dollar in August alone.

Adding to the volatility, driven by record-high natural gas prices and central bank divergence, was the political uncertainty that followed the resignation of Prime Minister Boris Johnson on 7 July.

The ensuing leadership battle was whittled down to two runners: former Chancellor Rishi Sunak, who campaigned on a platform of economic reform to restore growth, and Foreign Secretary Liz Truss, who had promised tax cuts.

Markets responded positively to Johnson's resignation initially, believing Sunak was the natural successor, but it soon became apparent in the polls that Conservative Party members preferred the Truss pledges – and the pound began to sink again.

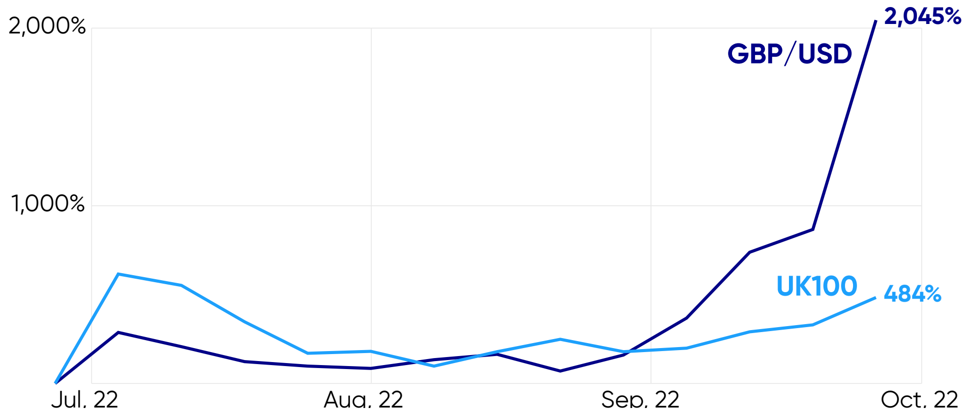
"The race for leadership of the Conservative Party was notable for its absence of grown-up debate around the policies that the UK needs to secure a sustainable economic future," said Neil Shearing, group chief economist at Capital Economics.

Capital.com data showed that there was a massive 103% increase in trading volume in GBP/USD on 6 September – the day Truss was named the new PM. There was also a spike in the number of traders going short: 44% on 6 September, compared with 37% on the previous day.

However these spikes were dwarfed by the increased trading volume which followed the 'Mini Budget' announcements from Truss and new chancellor Kwasi Kwarteng, which saw GBP/USD volumes soar to record highs, further 549% increase since 6 September.

Jump in GBP/USD volumes as UK introduced new prime minister

Percent difference in UK100 and FTSE 100 trading volume compared to July 1st 2022



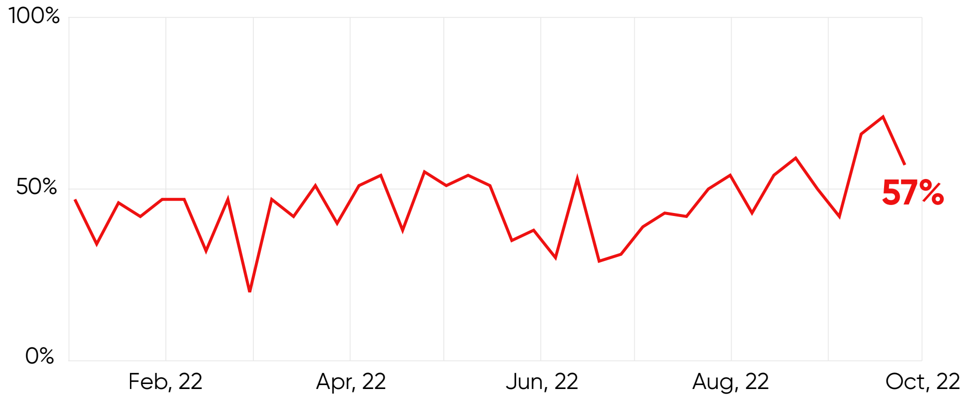
FTSE MIB (IT40): Short positions up on Italian stocks ahead of elections

Although the Italian stock index – FTSE MIB (IT40) – is a minor market in terms of volume and traders on our Capital.com platform, it is worth noting how traders became increasingly bearish in the approach to the Italian elections on 25 September.

On 19 September, the week before the vote, the percentage of shorts on IT40 reached an all-time high of 71%, as traders rushed to hedge against Italy's rising political risks.
The trend began in early September, indicating that it was primarily driven by the election. Prior to September, IT40 had a much lower percentage of shorts.

The extreme bearish sentiment on the IT40 is not found in any of the other competing equity markets, which makes Italy a case study in this regard. For example, the German Dax (DE40) displayed a lower percentage of shorts (49%) at the same time.

Spike in IT40 shorting as presidential elections approach
Weekly long and short positions for the IT40



Orron piques the interest of traders

Apart from BBBY (see Bed Bath & Beyond: Responsive traders in action above), energy stock Orron Energy (ORRON) also saw an increase in trading volume (up 4,283%) and in the number of traders (up 537%).

The independent energy company based in the Nordics disposed of its oil and gas arm Aker earlier in the summer and Orron is now solely focused on renewable energy.
The renewable sector has gained traction in recent months, as climate change and political factors are forcing economies to be less dependent on fossil fuels. The company has also recently purchased 95% stake in Slitevind, Sweden's largest private wind power company.

Orron is especially attractive to traders due to its relatively small market cap. This has made its shares cheaper than some of the bigger energy majors, especially in the current economic environment.

CN50 (China A50): Semiconductor uncertainty shrouds index

The China A50 Index (CN50) has seen a continuous decline in the number of traders and trading volume across all regions.

The zero-Covid policy of China has resulted in strict lockdown measures in the first half of 2022. This has exacerbated the ongoing issue of labour shortages and supply chain issues.

The recent passing of the CHIPS and Science Act by the United States government – aimed at boosting US semiconductor production – has piled further pressure on China's economy.

Daniela Hathorn, Market Analyst at Capital.com, said:

"Traders often take advantage of the potential for a recession to increase their short positions. That said, a slowing Chinese economy can have an impact on the trading volume for Chinese equities if people shy away from the uncertainty of what may happen."

Nasdaq 100 (US100): Traders dodge bear market bandwagon

The Nasdaq 100 (US100) has declined 40% in trading volume on Capital.com since May 2022. Due to the index being composed mainly of technology stocks, the movements in this sector heavily affect the index. During the current inflationary environment, the technology sector is seeing a reduction in demand as luxury tech products fall off consumer shopping lists.

About 45% of traders on the Capital.com held a short position on the index in Q3.

Piero Cingari, Markets Specialist at Capital.com, said:

"This may have happened given that the US100's performance was essentially flat during the quarter while the majority of the downward trend was concentrated in the first half of the year. Traders did not jump on the bandwagon of the bear market rally in July, with the US100 holding roughly the same percentage of short positions. They made the right choice, because by mid-August, the US100 had fallen again."

Risk management: Stop-loss order use increases in Q3

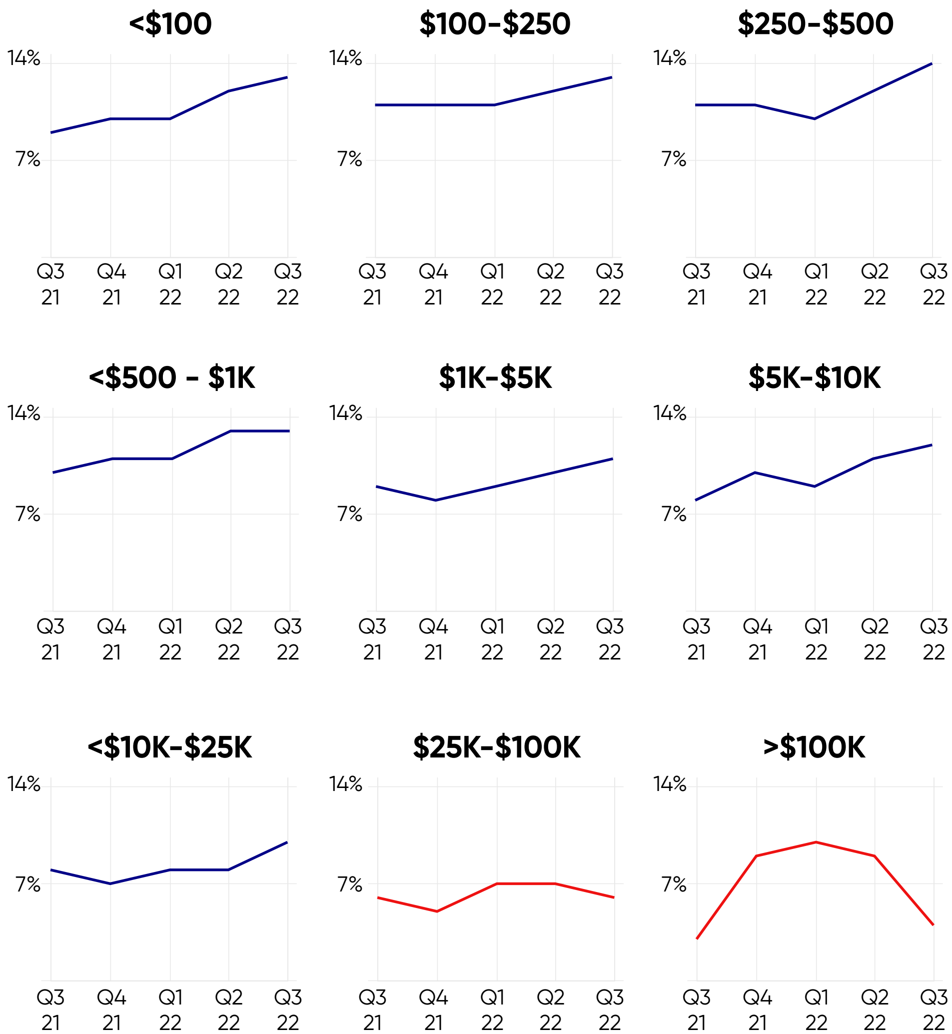
Stop-loss and take-profit orders are valuable tools for managing risk, and Capital.com has striven to provide traders with education on how to use these tools through our **trading guides** on the platform's News and Analysis channel and **video guides** on our YouTube channel.

Between 2019 and 2021, the use of both fell to just 8% of trades but, over the course of 2022, there has been a noticeable rise – particularly in stop-loss orders, as many markets turned negative during the second quarter.

Traders' use of stop-loss orders fell from 14% of trades to 8% between 2019 and the second quarter of 2021. Since then, usage has been slowly increasing and in Q3, 12.3% of trades were covered by a stop-loss order – up from 11% in April-June. There was no significant Q3 change in the use of take-profit orders, which climbed slightly to 9% in the second quarter.

Use of stop loss is increasing for smaller portfolios

Percentage of trades with stop loss per quarter by account size



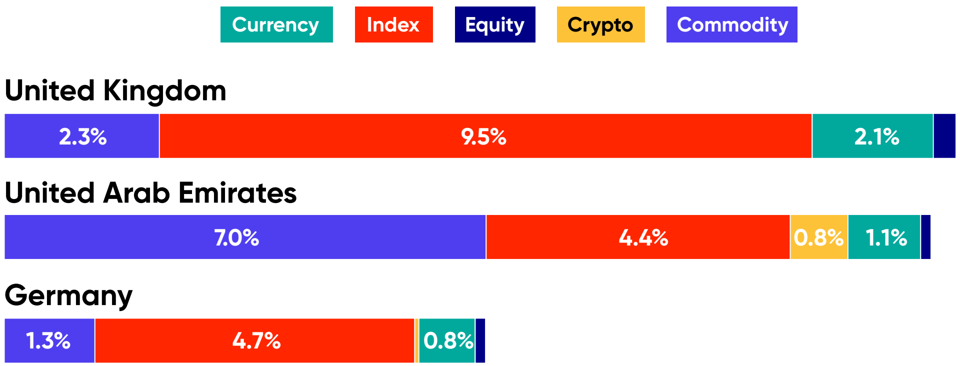
Most active countries on Capital.com

The largest volume of trades on our platform came from the United Kingdom, United Arab Emirates and Germany. These top three regions were responsible for more than 253 million trades combined.

Digging deeper, each country ranked differently when looking at the different asset classes. So for equities and currency, the UK took the lead over the UAE and Germany. For commodities and cryptocurrencies, the UAE had the highest trading volumes compared to Germany and the UK.

United Kingdom has highest trading volumes

Top 3 countries by total trading volume in 2022 and market distribution



Conclusion

Data from the third quarter of 2022 offers some key insights into the behaviour of Capital.com's global retail traders during a period of exceptional upheaval.

The quarter has been defined by an international gas crisis following the invasion of Ukraine, an inflationary environment, and political uncertainty in the UK following the resignation of Prime Minister Boris Johnson.

Traders were looking to profit from the energy crisis with crude oil as the most traded instrument during this period. Europe and the Middle East led the way and showed interest in natural gas as well.

Meanwhile, the summer stock rebound that saw significant interest in Bed, Bath & Beyond nonetheless saw retail investors showing caution with short selling remaining a popular choice.

Against a politically turbulent backdrop, adaptability was a key trend in retail traders. Investors responded to world events and switched to markets where they could apply personal insights. Stable profits were found in currencies, commodities and index markets during the quarter.

The fourth quarter edition of this report will show whether these are enduring trends, or comparatively short term ones.

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About our data

This proprietary report captures data on all executed trades on the Capital.com group platform between 1 July 2022 and 30 September 2022.

General

Traders active in multiple markets contribute to each market's total number of traders.

Sentiment is based on the percentage of short positions for a given market or instrument.

Markets

Product types include CFD, stockbroking and spread betting (available for FCA clients) unless stated otherwise.

Markets covered include CFDS on commodities, currencies, cryptocurrencies, indices and equities.

Demographics

Regions are determined by the registered location of residence. Inaccurate data is corrected within 14 days by Capital.com group.

Regions covered include Africa, Asia, Australia, Americas, Middle East, Europe and the United Kingdom.

Profitability

Trades of less than $1 are excluded from the calculations

Profitability represents the percentage of profitable trades by realised profit/loss excluding any adjustments following the transaction.

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