DRIVEWEALTH

SECOND QUARTER 2021

Global Retail Trends Report

www.drivewealth.com

The Future of Investing

Report Summary

The retail revolution that began last year marked just the beginning of a new era in investing. There's been a paradigm shift in the:

- **Who –** diverse emerging class of investors as savers and consumers convert to investors
- **What –** the possibilities are endless with the creation of new digital asset types from art to events, to the future exchange of things and investables yet to be imagined
- **How –** the future of finance is **mobile, transactional, fractional and personal™**
- **Where –** global, borderless investing where anyone anywhere can invest in anything
- **Why –** investing must be democratized to close the inequality gaps in financial literacy and wealth

While the retail revolution may have been initially sparked by pandemic lockdowns, retail investor mindsets, behaviors and expectations have evolved. The retail revolution is just the beginning of an evolution that we believe will continue transforming financial lives and financial services over the next decade. Here are the data:

- **1H21 trading volumes and number of trades surpassed full year 2020,** despite investors—on the DriveWealth platform and in the broader markets—temporarily stepping away from their screens in April and May as the world reopened after nearly 1 billion people received Covid vaccinations
- **15% increase in approved accounts in 2Q21,** fueled by steady growth in account openings by younger investors
- **20% increase in AUM in the quarter significantly outpaced the markets**[71]
- Quarterly trading volume slowed at the start of the second quarter, following 1Q's record setting activity, but picked up 22% in June, roughly in line with overall markets
- **95% of trades placed on the DriveWealth platform had a fractional component in 2Q21**
- Investors ages 30-49 remained the most active - trading only slightly less frequently in 2Q than in 1Q
- June activity surged as investors of all ages started to reengage - trades per account rose 19% in June
- $250 average trade size in 2Q21, a 12.5% decrease from 1Q21

+15%

Increase in approved accounts in 2Q21 over 1Q

+20%

Increase in AUM on the DriveWealth platform in 2Q21

+22%

Increase in June's trading volume, up over May

+95%

Trades on the DriveWealth platform that had a fractional component

$28B

Retail invested record cash in U.S. stocks in June[75]

$250

Average trade size in 2Q by retail investors

This report is based on aggregated data from millions of retail investors around the world who trade fractional shares of U.S. equities on the DriveWealth platform.

Retail Investors Still Engaged, With Pick Up in June

In the second quarter, Covid vaccination rates climbed, enabling local and national governments to start lifting stay-at-home restrictions and mask mandates, and the post-pandemic recovery to begin. Second quarter results **reflected investors across the globe temporarily stepping away from their screens and into real life**, plus the complex, changing micro- and macroeconomic dynamics related to the wide-ranging and varying impact of Covid on local and regional economies everywhere.

Second quarter activity was mixed - most key metrics saw a slowdown in April and May, and an upsurge in June. By June 30th, the S&P 500 already reached many analysts' year-end forecasts, up 14% over 2020.[39] Growth and optimism led the S&P 500 and the Nasdaq Composite to hover in record territory, at over 4,297 and 14,510 respectively. Meanwhile, trading volumes were down 12% in 2Q21 for the S&P 500, and 27% for the NASDAQ.

Account Openings

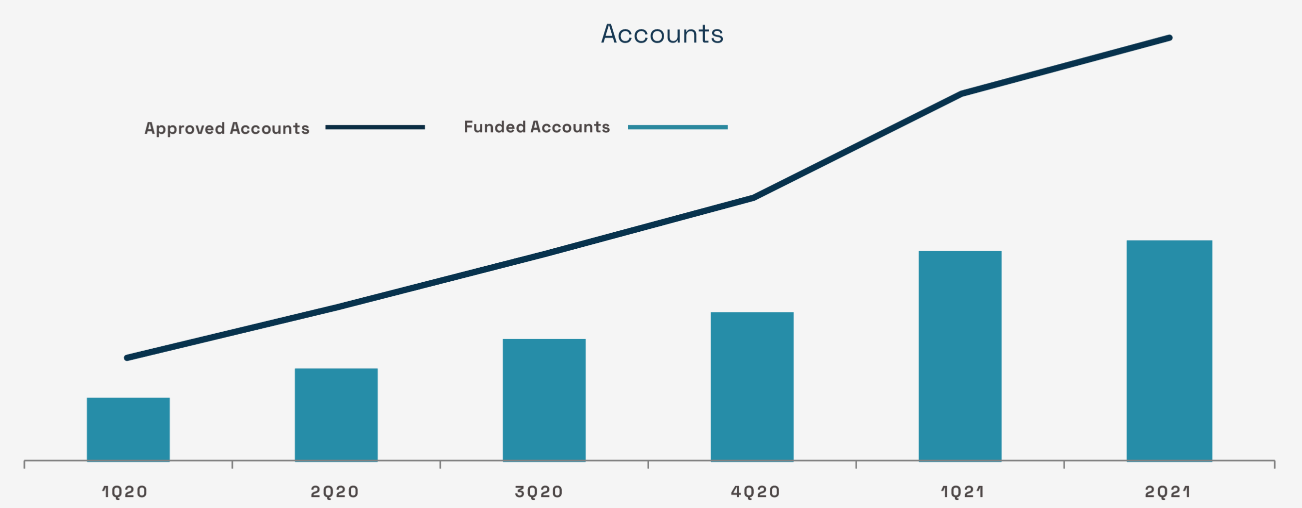
At DriveWealth, net new accounts finished the second quarter up 15% versus 1Q21. While the rate of growth was slower than the prior quarter, account openings grew steadily month to month throughout the quarter.

- Charles Schwab[17] reported a slowdown in net new brokerage accounts in April and May, with May posting a 10% decrease from April
- Schwab's net new brokerage accounts in 2Q21 were down 35% from the end of Q1

On an absolute basis, younger investors fueled growth in net new account openings in 2Q21

- **Under 40:** 73% in 2Q21, 77% in 1Q21
- **Under 30:** 41% in 2Q21, 49% in 1Q21

The largest absolute number of new accounts were opened by investors ages 20-29, followed by those aged 30-39, then those ages 40-49.



Source: DriveWealth

32%

People in the U.S. said pandemic inspired financial discipline[57]

33%

in U.S. will increase investing post-pandemic[57]

Asset Growth Outpaced Markets

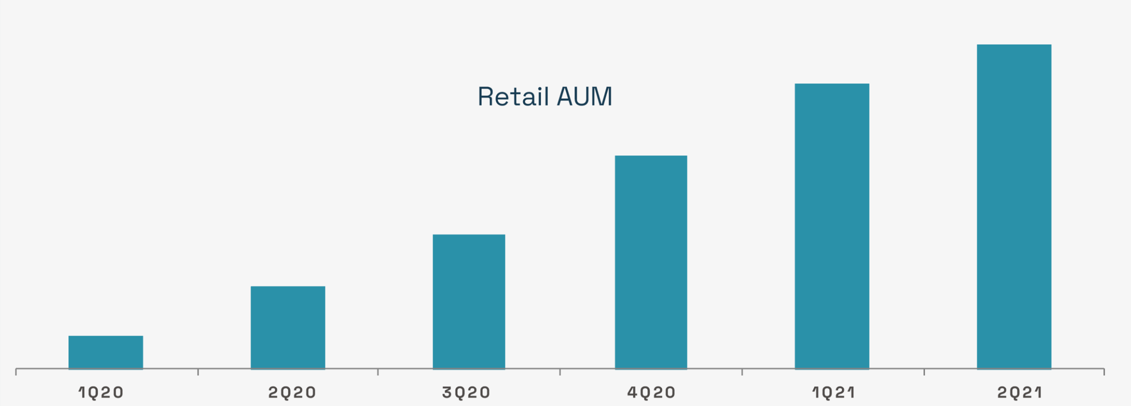
Overall trends were somewhat mixed as a result of the retrench from peak retail engagement in the first quarter.

» **20% increase in AUM in 2Q21 significantly outpaced the markets**
- NASDAQ 10% price increase[7]
- S&P 500 8% price increase[7]
- DJIA 5% price increase[7]

Deposits declined off February's peak through tax season, retreating to a quarterly average consistent with the same period in 2020

» 62% increase in LatAm investor deposit inflows quarter over quarter

» Inflows from APAC-based investors outpaced inflows from EMEA and U.S.-based investors



Source: DriveWealth

Trading Slowed as Economy Reopened, June Saw Pick Up

Markets experienced a slight slowdown at the start of the quarter, typical of the old adage "sell in May and go away." This year, however, it was more likely driven by the lifting of Covid-related restrictions throughout April and May, presenting people everywhere the opportunity to reconnect with the world in person for the first time in over a year. **Retail investors across the globe were not unique - they too temporarily stepped away from their screens and shifted time and attention from online to offline activities.**

2Q21 saw lighter trading activity, in aggregate and on average, due to a slowdown in April and May, however total trades in 1H21 exceeded full year 2020. The number of trades in 2Q21 declined 21% from record first quarter levels, but was up 73% over 2Q20.

- **Trades surged 22% in June after slower activity levels in April and May**
- **S&P 500 price increased 2% in June**[7]
- **NASDAQ price increased 6% in June**[7]

Source: DriveWealth

For comparison,

- Schwab's Daily Average Trades were down 28% to 6.0MM on a 13 week rolling average versus 8.4MM in 1Q21[17]
- Across the industry, retail investor activity, in terms of both DARTS and U.S. equity call options, picked up in June[7]

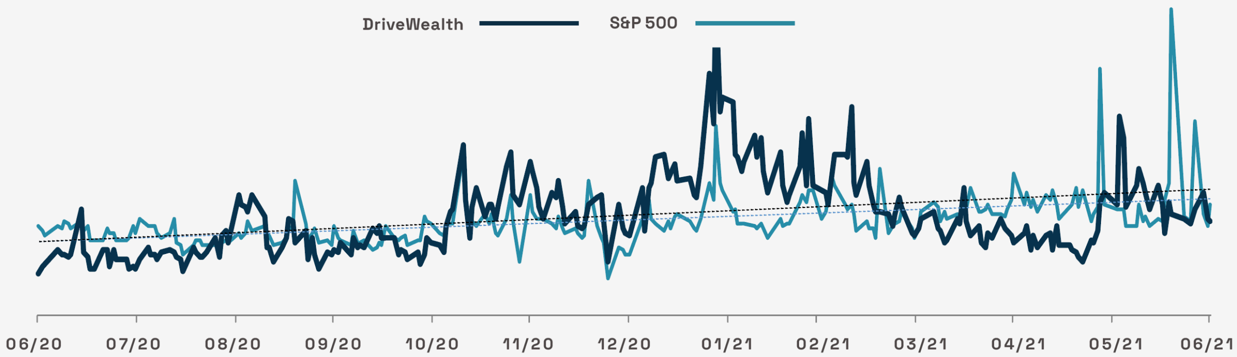
Goldman Sachs analysts reported **retail investor demand for equities is expected to increase to $400B in 2021**, up from $367B in 2020. The authors attributed the increased demand to "the buildup of cash in money market funds, anemic credit yields and a rebound in retail trading activity."[40]

Trade Volume

Trading volume in the first half of the year surpassed total volume traded on the DriveWealth platform in 2020 due to a record first quarter. Trading volumes were down 33% in 2Q21 versus 1Q21.

- NASDAQ volume down 27% in 2Q, driven primarily by a 36% decrease in April and mild decrease in May[7]
- S&P 500 volume down 12% in 2Q, driven primarily by a 31% decrease in April[7]

Daily Trading Volume - Last 12 Months



Source: Yahoo Finance, DriveWealth Analysis

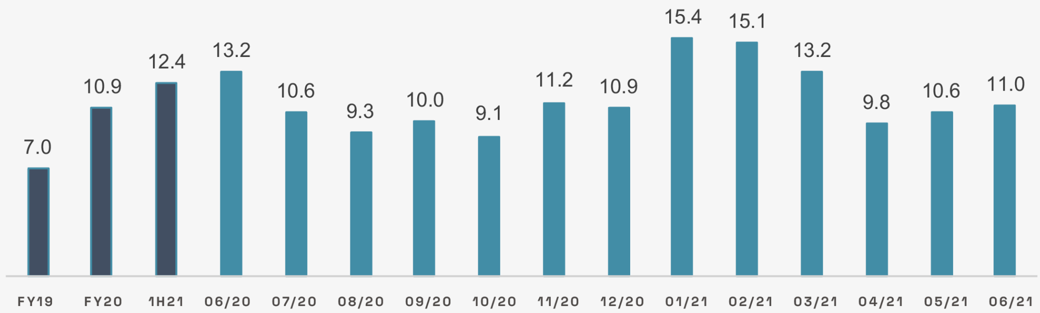
U.S. Composite Market Volume dropped sharply in April, but started rebounding at the end of May and continued through quarter end. June volume was up month to month

- S&P 500 volume increased 7% in June
- NASDAQ volume increased 30% in June

The **U.S. Composite Equities Average daily volume on a monthly basis dropped 28% in 2Q21** versus 1Q21

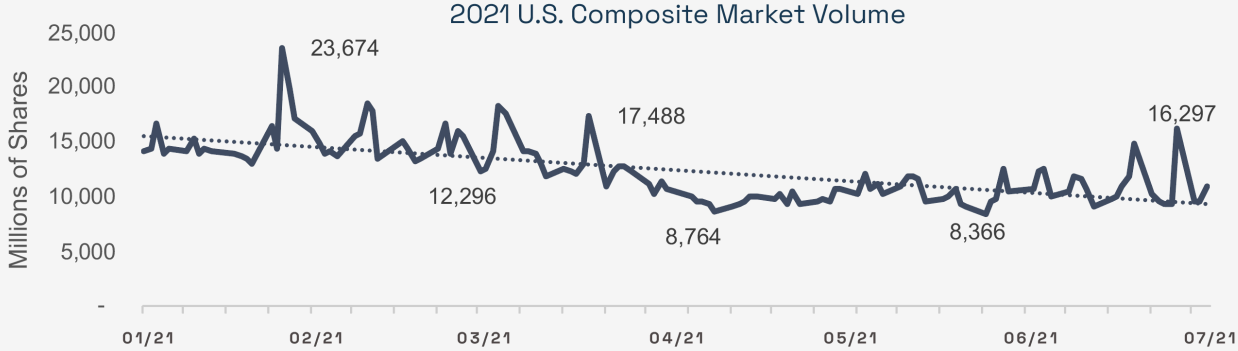
- April dropped 26% from March
- May rose 8% month to month, June rose 4%[7]

Equities Average Monthly ADV - U.S. Composite Volume (billions)



Source: Bloomberg Data, SIFMA, DriveWealth Analysis

2021 U.S. Composite Market Volume



Source: Bloomberg Data, SIFMA, DriveWealth Analysis

Investors Ages 30-49 Most Active in 2Q

The average number of trades placed per account in the quarter declined to pre-pandemic levels of just over 9 times, driven primarily by younger (<30 years) and older (50+ years) investors

- **Investors ages 30-49 remained the most active — trading only slightly less frequently in 2Q than in 1Q**
- **June activity surged as investors of all ages started to reengage — trades per account rose 19% in June, reaching 3-4 trades per account depending on the age or region demographic**

Most investors on the Drivewealth platform trade in terms they understand - $1 or 100 rupees. Notional investing drives fractional shares so once again **95% of trades placed on the DriveWealth platform had a fractional component in 2Q21.**

Average Trade Size

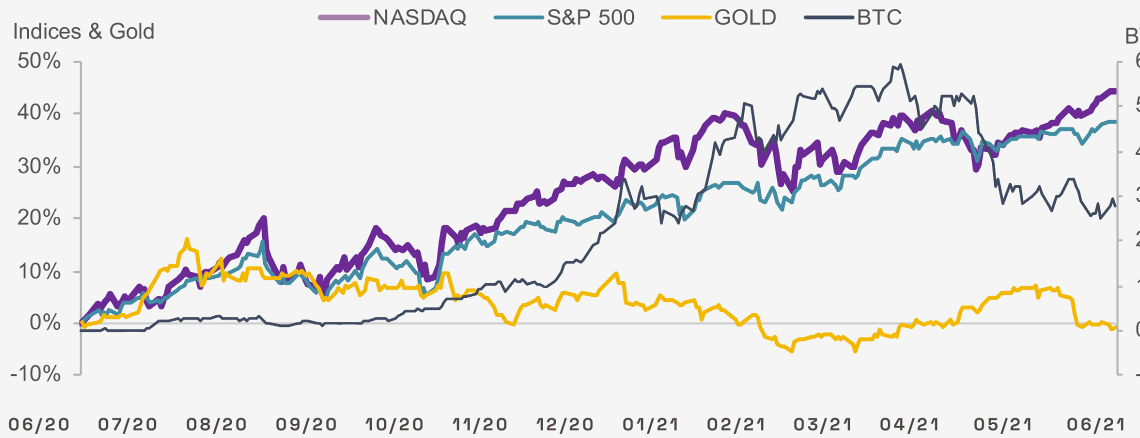
- **The overall average trade size was $250 in 2Q21, up 15% over 2Q20, but down 12.5% from 1Q21**
- **Investors aged 60+ once again traded larger amounts on average than any other age group in 2Q**
  - **2Q21:** $345 vs. $246 for investors under 60
  - **1Q21:** $444 vs. $277 for investors under 60
- **APAC** - investors continued to place larger trades than investors in other regions, though the average trade size was flat with 1Q21
- **EMEA** - average trade size increased 9% in 2Q21 from 1Q21
- **U.S./Canada** - average trade size in 2Q21 rose slightly over 1Q21
- **LATAM** - 2Q21 average trade size dropped by the greatest percentage sequentially of all regions

Markets Overview

Equity valuations are nearing 25 year highs.[29] Since February, U.S. equity funds have experienced $189B of net in flows.[29] Goldman Sachs expects households to buy an incremental $400B of U.S. equities by the end of the year.[40]

In 2Q21 the NASDAQ outperformed the S&P 500, Gold and Bitcoin, up 10% from 1Q21, 13% in the first half, and 44% over the past 12 months.

- S&P 500 was up +14% in 1H21, +8% in 2Q and +39% YoY (vs 2Q20)[7]
- Nasdaq was up +13% 1H21, +10% in 2Q21 and +44% YoY[7]
- Gold declined -7% in 1H21, but was up +4% in 2Q21 and -1% YoY[7]
- Bitcoin (BTC) experienced a significant drop of 40% in 2Q21 despite reaching all time highs in April and returning +290% since 2Q20[7]

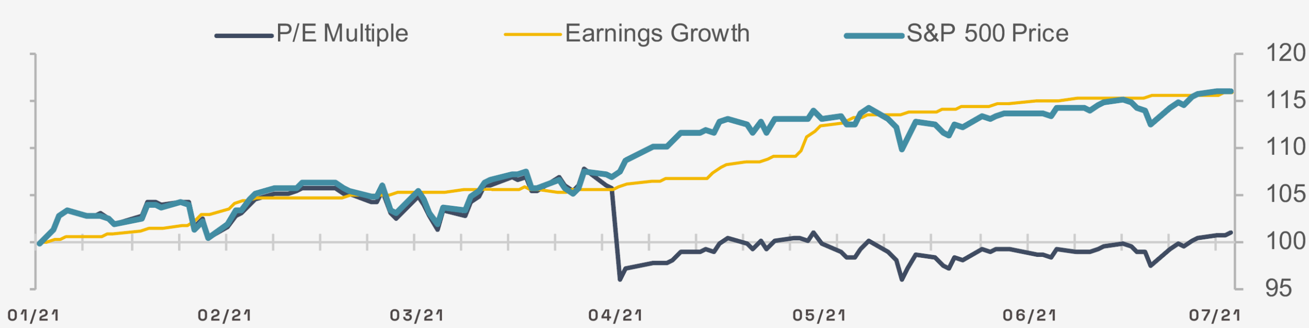


Source: Bloomberg Data, DriveWealth Analysis

The S&P 500 had its second best start to a year this century - up 14.4%. Historically this has been a bullish sign. The Index has been up over 12.5% 16 times since 1954 and finished higher in 12 of them. That includes the last 7 times going back to 1989. The average second half gain has been 7.1%.[46]

Wells Fargo projects that over the next 18 months, "U.S. **economic growth will remain robust" and be "likely to boost corporate sales, sending S&P 500 Index profits to record levels.** Companies made significant progress cutting expenses during the 2020 recession, creating large operating leverage despite rising input costs."[68]

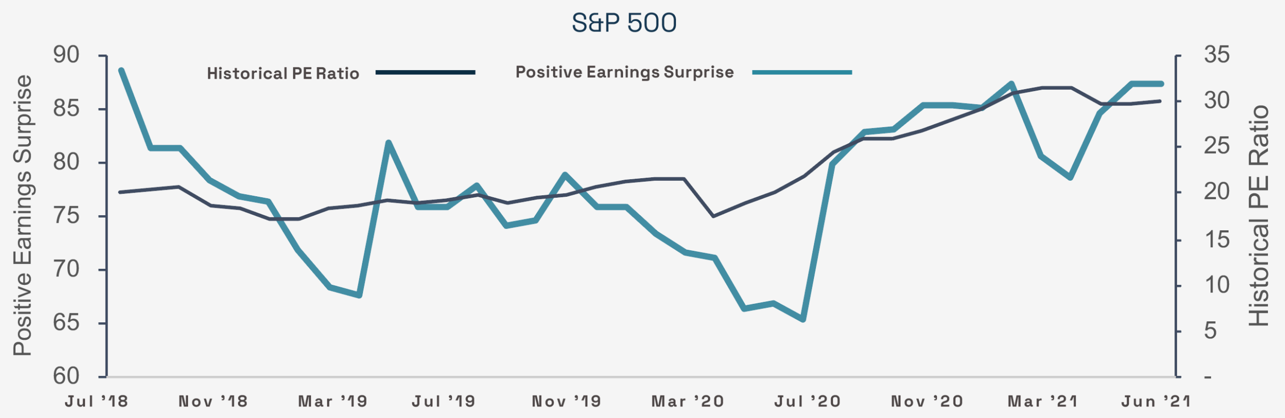
Fitch states that "despite rising inflationary fears, we believe that central banks will broadly keep interest rates anchored which, combined with rising growth, is helping to steepen the yield curve, driving flows into risk assets…. And **while we see potential bouts of volatility emerging over the coming months, we believe that risk assets will remain supported** throughout the year."[32]



Source: Bloomberg Data, DriveWealth Analysis, J.P. Morgan Asset Management[44]

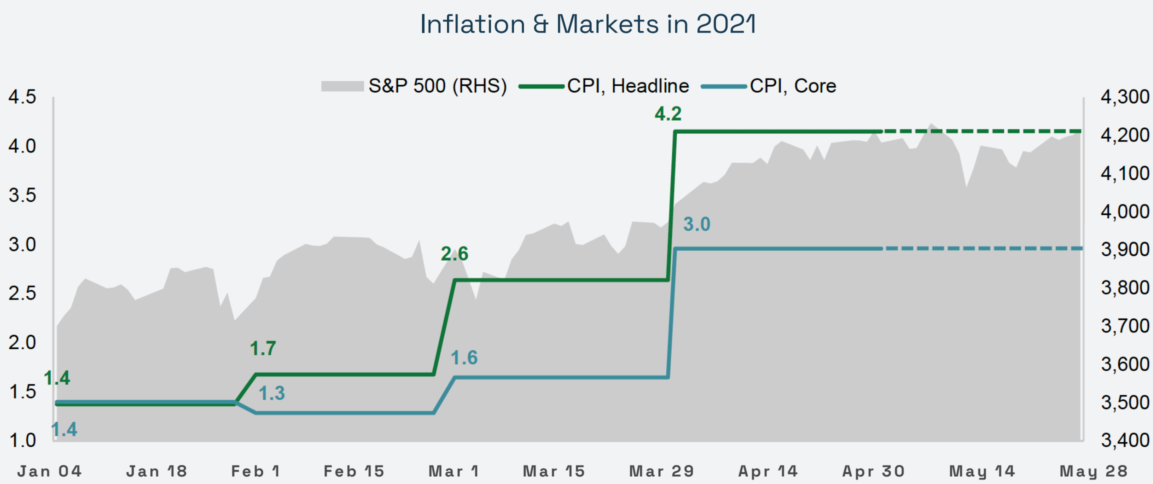
Earnings Growth

- SIFMA reported that **earnings continue to surprise to the upside** on account of strong corporate fundamentals and strong cash positions[64]
- This strong positioning coupled with broad-based growth momentum, means **expectations are elevated** (2Q21 +59.4%), even more than last (1Q21)[52, 53]



Source: SIFMA,[64] Bloomberg Data

"Inflation can become a headwind to valuations if it leads to expectations of Fed tightening and thus higher real interest rates. S&P 500 returns have been consistently positively correlated with breakeven inflation but valuations have typically contracted alongside sharp increases in real interest rates."[70] That said, equities, both **stocks and ETFs, have historically outpaced inflation**. Over the past 100 years, the S&P 500 has returned 10%, or 7% if netted for annual inflation, says Forbes.[37]



Source: SIFMA[64]

Emerging Market Currencies May Strengthen Against the Dollar

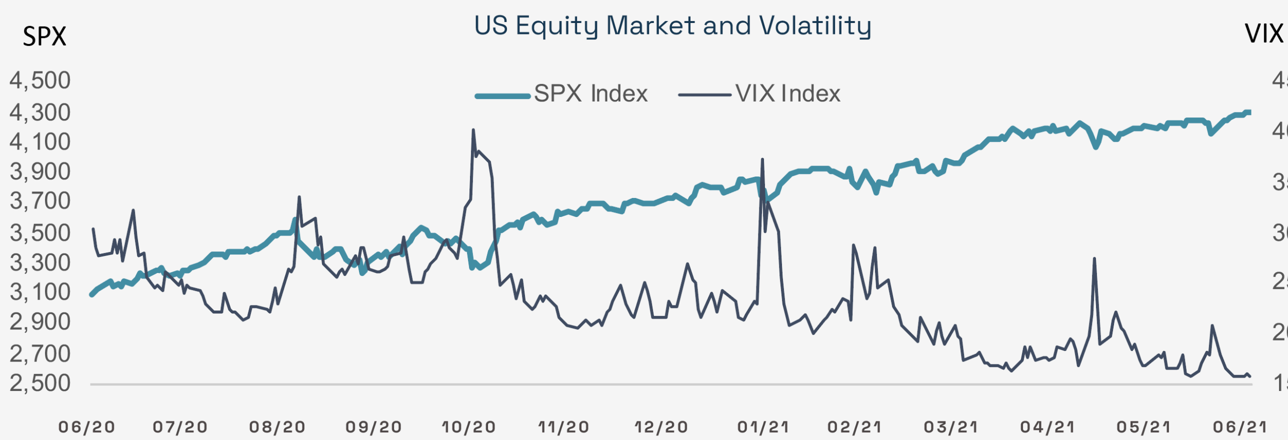
Wells Fargo predicts that the U.S. dollar will depreciate against developed market currencies by early next year as "an environment of more balanced global growth and recovering trade, with U.S. twin deficits large and growing, is historically one where the dollar falls rather than rises. Dollar weakness here should enable a recovery in emerging market currencies, despite slower vaccine deployment and a delayed reopening in many countries."[68]

We anticipate that any strengthening in emerging market currencies will drive demand for U.S. equities by international investors as these assets become less expensive.

Volatility Continues Lower

The CBOE Volatility Index, otherwise known as the VIX, closed the quarter at 15.8, close to a 16-month closing low of 15.62 occurring on 6/25/21; trending throughout the quarter well below the key psychological level of 20. The VIX average value was 18.0 in 2Q21, down from 23.2 in 1Q21, and down from an average of 29.3 in 2020.

"Volatility continues to work its way lower and is near the levels last seen before the March 2020 "Covid Crash." Considering the macro events the market has been forced to digest in recent months from inflation worries, new COVID-19 variants, international headlines, and corporate actions, the VIX has remained fairly docile. As always our focus is on the daily dispersion of the Volatility Index, looking for periods of very narrow movement as a precursor to a possible spike higher in the VIX. Currently, we are not in such an environment of low dispersion that preceded major moves in volatility and until we are, we expect the activity in the VIX to remain fairly muted." - Andrew Thrasher of Thrasher Analytics



Source: DriveWealth Analysis, Bloomberg Data[19]

Post Pandemic Economy

Rising vaccination rates: to nearly 1 billion globally are driving lifting of pandemic restrictions and the beginnings of an economic recovery

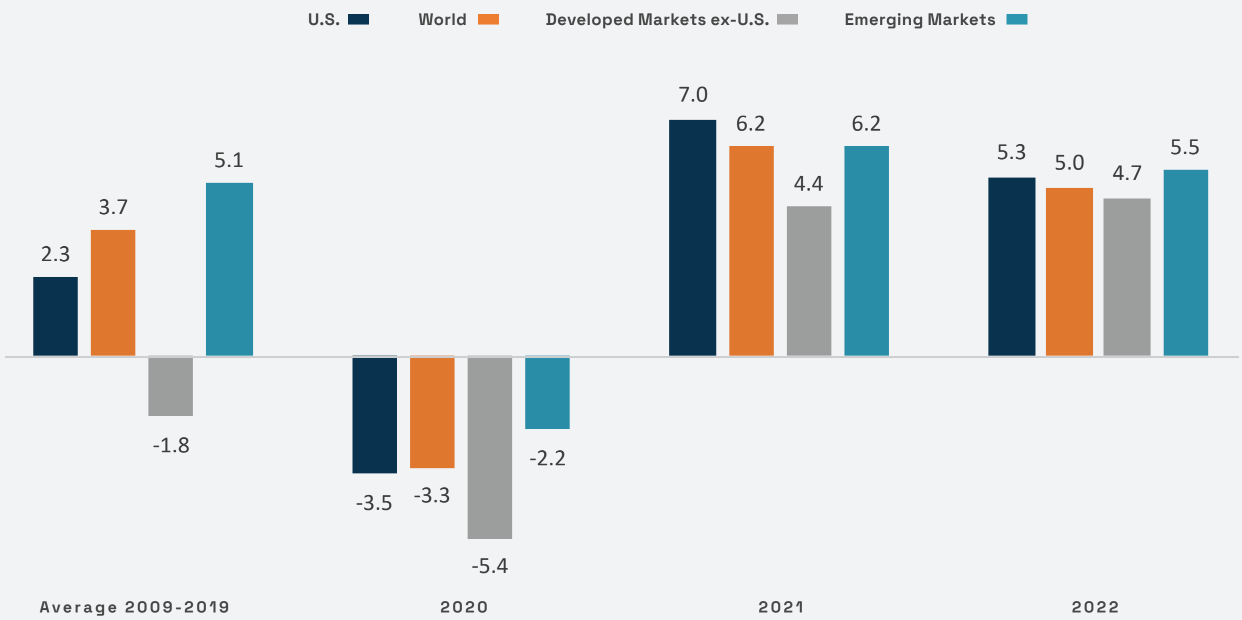
- China, India, and Brazil lead the absolute number of doses administered[54]
- 50%+ of U.S. vaccinated and 65% of the United Kingdom[54]

High expectations for U.S. GDP growth, with even higher forecasts for Asia

- **U.S. GDP:** estimated to be 6.4% annual growth in 2021 versus -3.5% in 2020, and 2.2% in 2019.[58] This is a growth level "that you would expect from an emerging market, not a developed country" and emphasizes "how strong the economic growth is expected to be over the course of this year." - Boston Federal Reserve President, Eric Rosengren[25]

- **Global GDP[42]:**
  - **7.3% annual growth in GDP forecast for Asia,** driven by 8.6% in developing Asia and 8.4% in China
  - By comparison, annual growth rate forecasts for the G7 is 5.4%, LATAM 4.6% and European Union 4.4%
- **U.S. Unemployment:[14]** declined to 5.9% in June, closer to pre-pandemic levels of 3.5%; marking 13 months of consecutive improvement
  - 850,000 jobs were added in June, building on jobs added in May (583k) and April (269k)
  - Demand for labor remains unmet due to the ongoing risk of contracting COVID-19, a continued lack of childcare, and the opportunity for early retirement

From a U.S.-led boom this year to more moderate, uniform growth in 2022

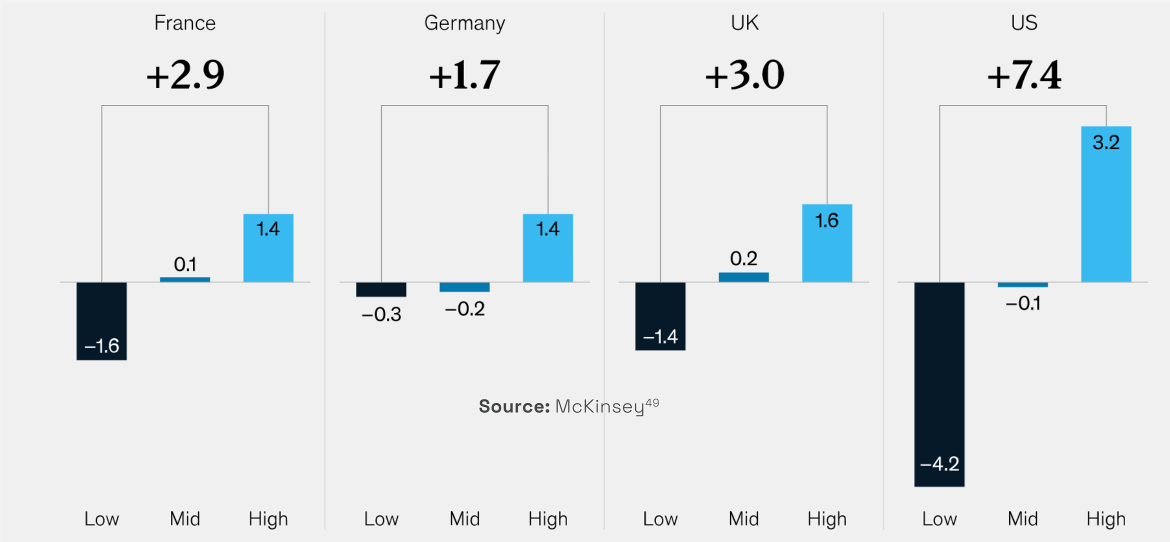


Source: Wells Fargo[68]

- **Unemployment rates disproportionately impacted minorities and women**[14]
  - Black and Hispanic populations are at 9.2% and 7.4% unemployment rates as of June 2021, compared to white populations at ~5.9%
  - **"Shecession" - women remain disproportionately impacted** with one in four still not having returned to work due to the lack of childcare options, twice the rate of men[9]
- **Consumer Confidence: rose again** for the fourth straight month to 127.3 in June, the highest level since the start of the global pandemic (132.6 in March 2020)[22]
- **U.S. personal saving rate: hit an all time high of 33.7% in April 2020,**[10] as Americans' financial discipline changed as a result of the global pandemic, at least for the time being
  - Personal savings rate of 12.4% of disposable income in May 2021, remains above pre-pandemic levels of below 9% (observed in both January and February of 2020)[10]
  - 32% of Americans stated in a recent survey by Northwestern Mutual[56] that their **experience throughout the pandemic inspired financial discipline,** while 17% stated that it prompted them to start financial planning for the first time
  - **33% stated they would increase investing**[9]
  - 45% said the pandemic set back their long term financial security[9]
- **Uneven pandemic recovery: gap between the haves and have nots widened**
  - ~40% of upper income households claimed their financial situation improved in the last year, compared to only ~20% of lower income[22]
  - Of adults who usually put money into savings, almost 50% of lower-income adults stated they were now saving less than usual, compared to <20% of those with upper incomes[22]
  - Low income households will likely not return to 2019 spending levels by 2024[49]
- **House prices: existing home prices in the U.S. rose 24% YoY** in May 2021[67, 47]
  - Rising residential home values[36] are being driven by high demand and record low supply, down 30% year over year
  - However, June new home sales dropped 5.9% indicating that there may be a pause in residential investment growth underway[62]
  - Rising home values, coupled with stock markets at peak levels, are contributing to the wealth effect, which can make people more likely to spend[65]
- **Consumer Spending:** remained flat in May in the U.S., following gains in April of 0.9% and 5% in March, as economies began reopening[11]
  - Household spending rotated towards vacations, travel, and apparel, rather than items that made stay at home restrictions more bearable (like furniture, workout equipment and electronics)
  - **Leisure travel resumed with daily U.S. TSA screening of 1.8-2.1 million people**, down only slight from pre-pandemic levels of 2.0-2.5 million[66]
  - Note that no stimulus checks were distributed in 2Q21 in the U.S.[55]
  - Consumer spending in the U.S. is projected to outpace other regions[49]

The Recovery in Consumer Spending May be More Uneven in the United States Than in Europe:

Estimated change in consumer spending, by income segment, 2019 vs 2024, percentage points



Source: McKinsey[49]

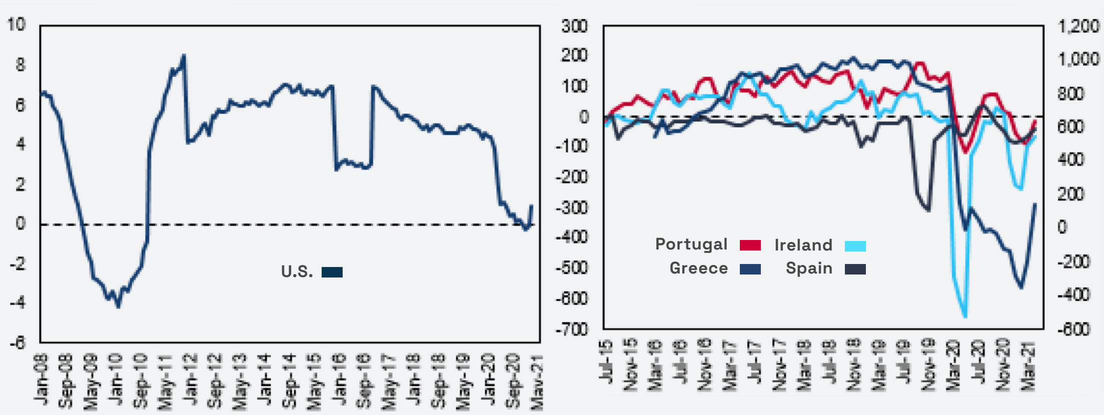
» **Consumer Debt:** In the U.S., total consumer debt outstanding grew by 2.4% year over year in April 2021, its fastest pace since March 2020[26]

- **U.S.:** "consumers will most likely take on more debt over the coming quarters given robust balance sheets, low financing costs and a cyclical pickup in economic activity and consumer confidence as the economy continues to reopen"[8]

- **Europe:** the picture is more mixed as "data from the European Central Bank show that, on a three-month moving average basis, credit to households is still negative for several of the European countries...but the data are bottoming out. This suggests that credit to the consumer will start to turn positive over the coming months, underpinned by loose credit conditions and a cyclical pickup in the economy."[31]

Consumer Debt Starting to Pick Up in the U.S., Still Lagging in Europe:

U.S. consumer credit outstanding, % change YoY (LHC) & European consumer credit, 3mma (RHC)



Source: Bloomberg, FRED[8]

Retail Revolution - Will it Last?

As a result of the pandemic we saw a huge surge of first time investors entering the market, as individuals in the face of global economic uncertainty, potential unemployment and loss of healthcare insurance (U.S.), started investing as a way of taking control over their financial future and potentially earning more than 0% or low interest on cash accounts. The influx of account openings was aided by the rise of digital wallet providers that made opening an investing account easy and accessible from home.

To learn more about these new account openers and their investment knowledge and practices, the FINRA Investor Education Foundation and NORC[30] conducted a surveyed in 4Q20 and learned:

- New investors during 2020 tended to be **younger, earned lower incomes, and were more racially and ethnically diverse**
- 66% were new investors who **had not previously owned a taxable investment account**

While reasons for opening the accounts varied by the respondent's race, the top three answers across all respondents were:

- **Ability to invest with a small amount of money**
- **Wanting to invest for retirement**
- **Dips in the market that made stocks cheaper to buy**

Another recent study of retail investor behavior showed that **nearly half of the respondents indicated the global pandemic prompted a change in their financial planning**. The U.S. personal savings rate hit a record high during the pandemic. For one-third of the respondents, this meant an improvement in their financial discipline. A trend that they expect to stick. Aside from more conservative spending and debt repayment, other notable behavioral changes included the following — we look forward to seeing the impact of these changes:[57]

- **33% want to increase investing, while 25% plan to increase retirement savings and/or contributions, 24% non-retirement savings**[57]
- **29% revisiting financial plans more regularly**[57]
- **28% increasing the use of digital solutions to manage finances**[57]

Reasons for Opening a New Investing Account During 2020

Top 5	White	African American	Hispanic/Latino	Asian
1	Retirement (26%)	Invest with a small amount (35%)	Invest with a small amount (43%)	Retirement (34%)
2	Invest with a small amount (25%)	Didn't want to miss opportunity (27%)	Retirement (28%)	Market dips make investing cheaper (28%)
3	Market dips make investing cheaper (25%)	Friend suggestion (26%)	Goal other than retirement (20%)	Offered a sign on bonus (24%)
4	Didn't want to miss opportunity (22%)	Extra time on my hands (21%)	Market dips make investing cheaper (18%)	Didn't want to miss opportunity (23%)
5	Goal other than retirement (19%)	Family member suggestion (20%)	Didn't want to miss opportunity (17%)	Invest with a small amount (21%)

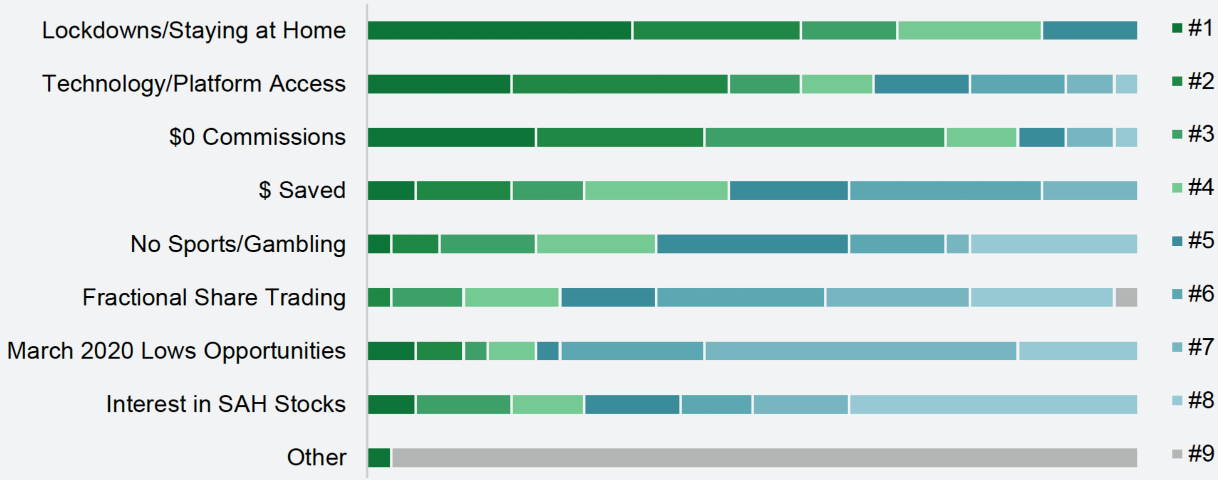
Source: FINRA[30]

When SIFMA polled professionals at exchanges, banks, retail trading firms, market makers, brokers and clearers about factors contributing to increased retail investor participation, they cited three key drivers: [63]

- **Pandemic related stay at home mandates**
- **Ease of access – in terms of accessibility of trading platforms**
- **$0 commissions making trading economical**

When asked what would be key to maintaining retail participation, the **#1 response of professionals was the continued upward momentum in markets.**[63] While all investors love to see their portfolio balance climb, **novice investors, unsure of their investing skills, view market dips as a buying opportunity** (see Finra's retail study above). Last year at DriveWealth we saw an inverse correlation between the market dips and account openings/trade activity.

SIFMA Insights Factors Contributing to Growth in Retail Participation



Source: SIFMA Insights[63]

Currently, the **activity of individual investors remains elevated above the longer term average.** Retail investors are now responsible for around $38B, or ~10% of daily trading volumes on the Russell 3000.[61] This is expected to continue as global retail investors look to diversify their portfolio with access to U.S. dollars and/or U.S. equities, becoming shareholders of the brands they consume every day. If the U.S. dollar weakens into 2022 against emerging market currencies, as forecast by Wells Fargo, U.S. equities will become more affordable for international investors.[68]

While accessibility and affordability help investors to start investing, AI and machine learning-driven financial literacy programs have the potential to keep them engaged as they "learn their way" to optimizing their long-term financial health. Other factors include:

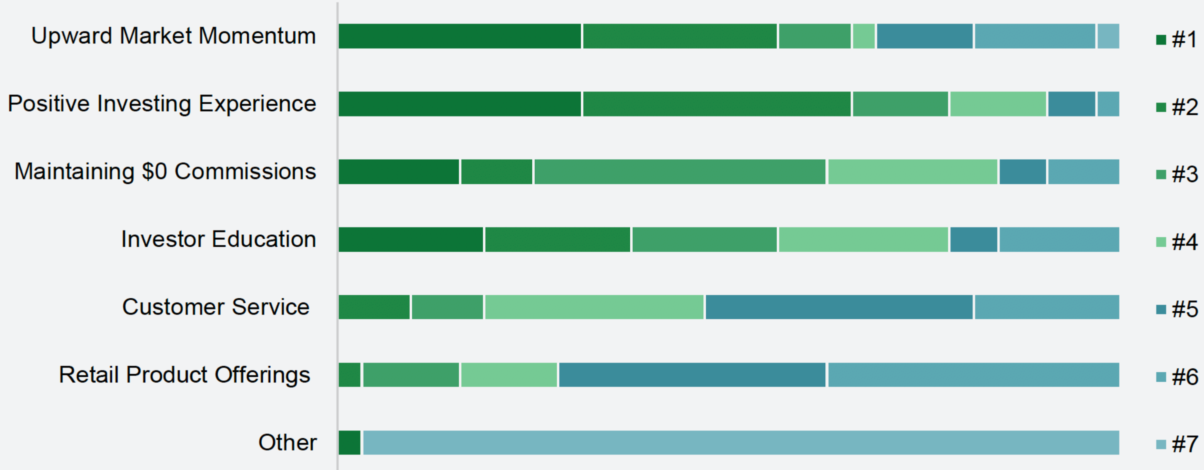
- Positive investor experience - ease of account opening, funding and trading, including UX designs that make it easy to search and select investments
- Affordability with low/no commissions and fractional share trading that empowers **people to start investing with as little as $1**

- The average price of top traded symbols on our platform are out of the reach of many investors
- Berkshire Hathaway A (BRKA) trades at over $400,000 per share, while Amazon (AMZN) trades north of $3,000

» **Literacy tools that teach the core tenets of investing — compounding, diversification, asset allocation and risk management - as they grow their savings and wealth**

Improving financial literacy is critical to helping people all over the world start thinking about investing as a way to prepare for retirement, especially citizens of countries with no or poor social safety nets for retirees. "According to the World Economic Forum, the **global pension shortfall will total over $400 trillion by 2050**. To put this into context, that is about 5x the level of global GDP, so it's a very big issue."[69]

SIFMA Insights Factors Important to Maintaining Retail Participation



Source: SIFMA[63]

Financial providers have two large opportunities:

» **Target people approaching retirement to help them make better choices so their savings and investments last**[3]

- Other ancillary advisory services could round out the offering such as advice on when to retire, how to navigate government benefits, manage taxes, etc.

» **Teach young people about the benefits of penny cost averaging into the market over decades —** optimize your customer LTV by engaging digital natives and guiding them through emerging affluence and beyond. In fact, penny or dollar cost averaging is a post-pandemic portfolio strategy recommended by Wells Fargo as way to focus on "systematic asset accumulation to avoid guesswork."[68]

HSA Spotlight

With health care costs on the rise, it's no wonder that 60%[60] of Americans feel unprepared for retirement. In a recent study, 80%[28] of respondents indicated they worry over their ability to fund health care expenses during retirement. Rising healthcare costs are outpacing the earnings growth rate in the U.S., so planning and saving early is more critical than ever.

- **Annual spend on health care for a healthy couple is estimated at $6,100 per person for ages 65 and up[28]**
- **The average retired couple, at age 65 in 2021, may need approximately $300,000 saved (after tax) to cover health care expenses in retirement,** according to a Fidelity Retiree Health Care Cost Estimate[60]

HSA Investment Accounts Are Savings Vehicles for Retirement - Not Just Medical Expenses

Many Americans don't understand how an HSA works — it is not a "use it, or lose it" structure like the more well-known Flexible Savings Accounts (FSA). An HSA is one of the most tax advantaged accounts in the U.S., which offers a triple tax advantage:

- **Pre-tax contributions** (including FICA tax savings of 7.65% — Social Security at 6.2% plus Medicare at 1.45%)
- **Grows tax-free**
- **Tax free withdrawal for medical expenses**

Individuals can invest pre-tax dollars into an HSA investment account, up to the annual maximum contribution limit[5] of $7,300 in 2022 for a family, or $3,650 for an individual. If the account holder does not need to sell positions to withdraw cash to cover medical expenses, the assets grow tax free. **HSA investment accounts returned a 41% compound annual growth during the last five years and increased 52% in 2020 over 2019.[28]**

HSA Investing Account Rules Offer an Additional Opportunity For Wealth Accumulation

If an account holder expects the long term return on invested cash to exceed the NPV of the cash spent on medical expenses today, they can pay for medical expenses out-of-pocket today instead of from the HSA account. The account assets may remain invested and potentially grow; the account holder can reimburse themselves from the HSA account for those expenses years after they have occurred.

Illustrative Potential Returns on Investing Annual HSA Contributions

Year	$7,300/Year Total Contributions	10% Rate HSA Value	10% Rate Return Net of Contributions	7% Rate HSA Value	7% Rate Return Net of Contributions
1	$7,300	$7,300	0%	$7,300	0%
5	$36,500	$44,567	22%	$41,980	15%
10	$73,000	$116,343	59%	$100,860	38%
15	$109,500	$231,939	112%	$183,442	68%
20	$146,000	$418,107	186%	$299,267	105%
25	$182,500	$717,934	293%	$461,718	153%
30	$219,000	$1,200,806	448%	$689,564	215%
35	$255,500	$1,978,478	674%	$1,009,129	295%
40	$292,000	$3,230,926	1006%	$1,457,336	399%

Source: DriveWealth Analysis

The IRS[43] does not impose a deadline for HSA receipt reimbursements, however all out-of-pocket medical receipts must be kept over time in order to claim qualified medical expenses as an itemized deduction on the tax return.

Investing the maximum contribution limit of $7,300 per year over 40 years, at the historical 10% return rate of the S&P 500, or 7% inflation-adjusted return rate, would allow a 25 year old to save between $1.4 and $3.2 million by the retirement age of 65 (note: analysis assumes annual contribution limit remains fixed, however, the 2022 contribution limit is 18% higher than the limit in 2011).

HSA adoption has continued to grow annually for the past 17 years. However, **only 6% of HSA account holders have an HSA investment account** today despite demand for HSA providers to offer investing options, not just cash savings vehicles:

- **79% of HSA account holders want access to investments other than cash[59]**
- 30% of respondents felt that investment options were an important feature when choosing an HSA provider[59]

More employers are offering high deductible HSA plans and directly contributing on behalf of employees. Last year employers accounted for 26% of the contributions to HSA accounts, with an average contribution of $870[4]. As of January 2021, over 34% of HSA accounts received a contribution from an employer, which accounted for 60% of all contributions on a dollar basis. Moreover, offering an employer match is a great way to recruit and retain younger employees - today **1 in 5 millennials[1] has an HSA account.**

Concentrating on Big Brands and ETFs

Over the past six quarters, DriveWealth's retail trends reports have shown that global retail investors investing in the brands they know. Trading activity has remained consistently concentrated in global brands and ETFs, with news and current events causing the only variation. Morgan Stanley's June research reinforced our data, showing that **retail investors "...tend to focus on both very large/ well-known stocks and tiny, illiquid micro-caps"** with a "preference toward cyclicals, high-growth, positive momentum, and high volatility stock", **and "sectors they are likely to be familiar with as consumers**...Consumer Discretionary, Tech, and Comm Services." The report also found that **stocks with higher retail buy/sell ratios outperformed stocks with higher sell/buy ratios** during the 5-year period ending in June 2021.[50]

» **Once again, a few familiar names remained or reappeared as the top-traded symbols in both advised and self directed accounts:**

- Big Tech - Apple (AAPL), Amazon (AMZN), Disney (DIS), and Microsoft (MSFT)
- Electric vehicles - Tesla (TSLA) and Nio (NIO)
- Reddit-driven meme stocks - Gamestop (GME) and AMC Ent. Holdings (AMC)

» **New symbols this quarter included a crypto company, a few household names spanning consumer and technology, and a new Reddit-driven short squeeze play**

- Coinbase (COIN) - a crypto currency exchange that direct listed on the NASDAQ in early April
- One short squeeze play, Clover Health Investments (CLOV), a medical insurance technology company, that garnered more mentions in investing forums than similar names like GME and AMC in early June[18]
- Walmart (WMT), Nike (NKE), and Nvidia (NVDA)

» **1Q21 top traded symbols that were knocked off the list —** Aurora Cannabis (ACB), Tilray (TLRY) a Canadian pharmaceutical and cannabis company, Churchill Capital Corp IV (CCIV), Plug Power Inc. (PLUG), Xpeng Motors (XPEV), General Electric (GE), and Nokia (NOK)

» **Advisors continued trading the usual Vanguard ETFs** (VTEB, VOO, VXF, VEA, VWO, VXUS) and iShares (SUB) on both number of trades and volume basis, adding a few additional Vanguard ETFs (DGRO, VYM, VGT)

SELF-DIRECTED

	Trades	6/30 Closing Price (USD)	Volume	6/30 Closing Price (USD)
1	AMC	$56.68	AMC	$56.68
2	TSLA	$679.70	GME	$214.14
3	AAPL	$136.96	TSLA	$679.70
4	AMZN	$3,440.16	NIO	$53.20
5	GME	$214.14	AAPL	$136.96
6	COIN	$253.30	SPCE	$46.00
7	WMT	$141.02	COIN	$253.30
8	NIO	$53.20	PLTR	$26.36
9	DIS	$175.77	BB	$12.22
10	NKE	$154.49	CLOV	$13.32

ADVISORS

	Trades	6/30 Closing Price (USD)	Volume	6/30 Closing Price (USD)
1	VOO	$393.52	TSLA	$679.70
2	VTEB	$55.30	AAPL	$136.96
3	VXF	$188.59	AMC	$56.68
4	SUB	$107.82	VTEB	$55.30
5	VEA	$51.52	AMZN	$3,440.16
6	VWO	$54.31	VOO	$393.52
7	VXUS	$65.68	COIN	$253.30
8	DGRO	$50.36	MSFT	$270.90
9	VYM	$104.77	GME	$214.14
10	VGT	$398.77	NVDA	$800.10

- **Interest also diminished on select ETFs** from iShares (AOA, AOR, IXUS, IJH) and Vanguard (VTI) leaving them out of the top 10

» **Self directed investors,** on a dollar volume basis, continued their interest in Virgin Galactic (SPCE) and Palantir (PLTR)

U.S. listed Equity ETF inflows are on pace for the strongest 1H in over a decade, surpassing $472B so far this year, double the inflows from this time last year.[24] This is driven by two trends:

» **Continued shift to lower-cost, more transparent, passively managed funds,** which typically have fewer rebalances than active funds and fewer distributions of taxable short-term capital gains

» **U.S. investors are facing potentially higher tax rates for capital gains and those individuals in higher income tax brackets.** ETF structures are more tax efficient than mutual funds

- ETF shareholders don't typically incur capital gains tax on ETF rebalances, whereas Mutual Fund shareholders do incur capital gains on redemptions and reallocations
- Biden's tax proposal would raise the long-term capital gains tax rate from 20% to 39.6% on short-term or long-term gains for those earning income above $1 million, and include an additional 3.8% net investment income tax (NIIT)[38]

APAC — Investors remained consistent this quarter with **six of the 1Q21 top 10 names returning** - Tesla (TSLA), Nio (NIO), Apple (AAPL), Palantir (PLTR), GameStop (GME), and AMC Entertainment (AMC)

» Amazon (AMZN), Microsoft (MSFT), Coinbase (COIN) and the Vanguard 500 Index Fund ETF (VOO) displaced ARKK Innovation ETF (ARKK), BlackBerry (BB), Churchill (CCIV) and GoPro (GPRO)

LATAM — Investors in LATAM also favored the same names as last quarter, **six of the 1Q21 top 10** list making investor's top 10 again in 2Q21 — Apple, Tesla, Amazon, Disney (DIS), Microsoft, Facebook (FB)

» GME and NIO dropped in popularity, while interest around AMC and the newly listed COIN translated to positions in the top ten

» Google dropped a spot, making way for Coca-Cola (KO) as a top ten symbol

» Vanguard Real Estate Index Fund ETF (VNQ) climbed this quarter, as interest in iShares Gold Trust (IAU) waned

EMEA — **Eight of the top 10 list from 1Q21 remained in the top 10 this quarter** — AMC, Tesla, Game Stop, Nio, Virgin Galactic (SPCE), Apple, Palantir, and Blackberry

» COIN and AMZN this quarter knocked XPeng (XPEV) and Plug Power Inc. (PLUG) out of top 10

	APAC	LATAM	EMEA
1	TSLA - Tesla	AAPL - Apple	AMC - AMC Entertainment
2	AMC - AMC Entertainment	TSLA - Tesla	TSLA - Tesla
3	GME - Gamestop	AMZN - Amazon	GME - Gamestop
4	AAPL - Apple	DIS - Disney	NIO - Nio
5	PLTR - Palantir	COIN - Coinbase	SPCE - Virgin Galactic
6	AMZN - Amazon	AMC - AMC Entertainment	AAPL - Apple
7	MSFT - Microsoft	MSFT - Microsoft	COIN - Coinbase
8	COIN - Coinbase	FB - Facebook	PLTR - Palantir
9	NIO - Nio	VNQ - Vanguard Real Estate	BB - Blackberry
10	VOO - Vanguard S&P 500 ETF	KO - Coca Cola	AMZN - Amazon

YIELDX Spotlight on Fixed Income

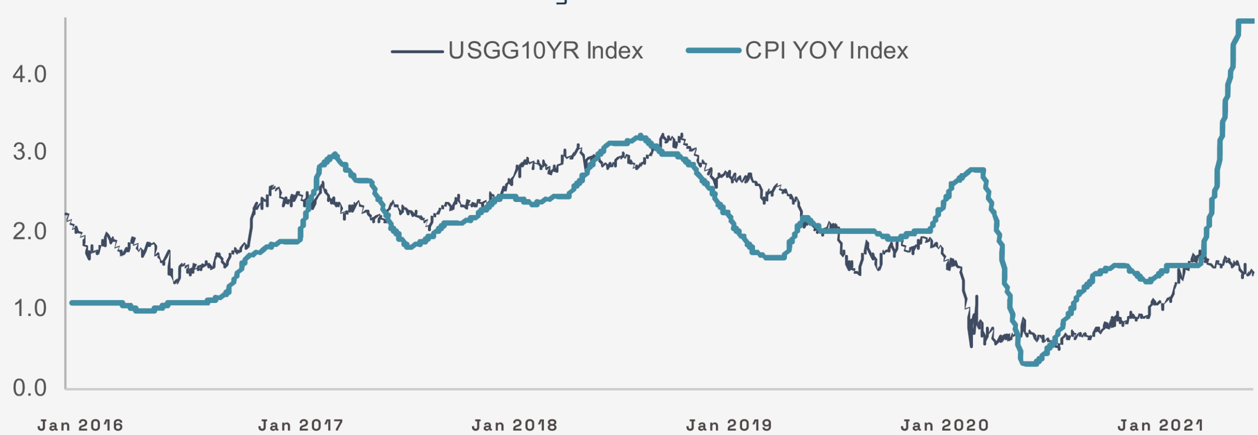
The fixed income markets in 2021 have been volatile - economic forces have pushed Treasury yields higher. The U.S. 10-year yields have moved from a low of 30 basis points (0.3%) during the initial pandemic lockdown in the spring of 2020, to the current level of roughly 1.45%[72] on June 30th. Easy central bank monetary policy and expansionary fiscal policy have provided tailwinds to financial asset prices, as equities, commodities and credit sensitive sectors of the fixed income market continue to move higher.

While U.S. economic GDP growth estimates rise to 6.4%[58] in 2021, the U.S. is also experiencing its worst bout of inflation in close to thirty years. The U.S. Consumer Price Index (CPI) is currently running at an annualized rate of 5%[12] due to supply chain disruptions, a large increase in money supply and increased demand for goods and services as the global economy reopens as pandemic restrictions are lifted.

Even "the core-price index, which excludes the often-volatile categories of food and energy, jumped 3.8% in May from the year before, the largest increase for that reading since June 1992."[74] **Some of the increase in inflation was expected due to "transitory" factors such as shortages in key areas and commodity price rises due to reopening,** however, the debate remains about how long this inflationary environment will persist, and whether inflation can abate to the Fed's target of ~2% without aggressive action to tighten policy from the U.S. Federal Reserve.[19]

Inflation—the increase of costs of goods and services over time—can present a real issue for investors and savers. As inflation rises, the purchasing power of one's money goes down as one can buy less with the same amount of savings. The difficulty for savers in the current environment is that money market accounts, short term investment vehicles and bank saving accounts yield close to 0%.

U.S. 10 Year Treasury Yield Index vs. U.S. CPI Index YoY



Source: Bloomberg Data[7]

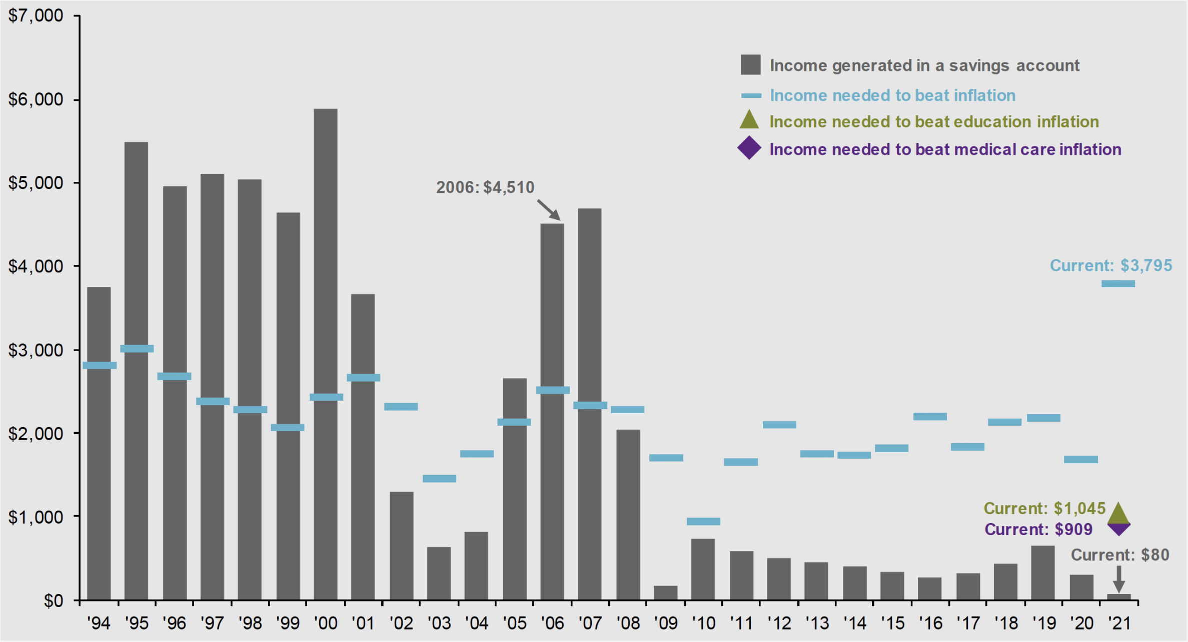
For example, **$100,000, held for 5 years earning 0% in a cash account, with an annual inflation rate of 5% would depreciate nearly 23% in value** over that period to just over $77,000.

A dangerous saying as far as financial markets are concerned is "this time may be different", but the **unprecedented nature of the post pandemic economic recovery lead us to believe the past may not be prologue as far as potential for large rises in U.S. interest rates.**

- Nine million more unemployed people in the U.S. relative to pre-pandemic
- the increasing tolerance of the Federal Reserve regarding higher inflation
- The idiosyncrasies behind the rise in inflation

U.S. government bond yields may rise in the coming months, but relative to the recent rise in inflation, the increase may be muted as benchmarked against past inflationary episodes. The broad fixed income asset classes, which includes investment grade and high yield corporate bonds and loans, securitized products, emerging market debt, etc., are positioned to add yield, ballast and most likely diversification to multi-asset and equity portfolios in the near future. To learn more, go to: **www.yieldx.com**

Income Earned on $100,000 in a Savings Account



Source: JP Morgan[44]

The Future of Finance

Conclusion

DriveWealth's mission is to democratize investing globally. We believe the future will look very different than the present. The embedded finance evolution is empowering retail investors everywhere to take control of their financial future. A confluence of trends have led us to this moment:

- Accelerated digital adoption - Online, capital and labor are both borderless
- Ubiquity of phones which opens access
- Apps have become economic engines
- Ecosystems developing around digital wallets
- Fractional trading technology to enable microshare investing
- Cloud infrastructure provides agility at lower cost
- Artificial Intelligence and Machine Learning enable scalable, data-driven personalization

There are large unbanked and underserved populations, young to old, in mature and emerging markets alike. This presents a **massive opportunity for providers to leverage technology to engage and empower emerging investors** of all genders, races and socioeconomic levels across the globe. **Mobile apps can help close the gaps of economic inequality and financial literacy** by providing affordable access to investing and other financial products and services through embedded, engaging and customized experiences.

The mindest that " 'everyone is an investor' is a collision of enabling technology, new business models, and cultural mindset shifts. It's a decades-long phenomenon" — and we're just getting started.[23]

More Inclusive Financial System

Financial inclusion is core to our mission at DriveWealth. It also represents a tremendous opportunity for providers to cater to the needs of the un/under segments of the market. As mentioned earlier in this report, the pandemic only widened the gap between the haves and have nots - shining a light on inequality.

In the U.S., only 1 in 2 Americans has any exposure to the stock market, and there are significant disparities:[23]

- 15% of families in the bottom 20% of income earners hold stock
- 92% of families in the top 10% of the income distribution own stock
- White investors own 3x as much stock as Black or Hispanic stockholders

Families are amassing wealth at different rates, partly due to the diversification of their assets:

- Top 1% grow their wealth faster than bottom 50%, 6.54% annual rate compared to 3.3%[73]
- **Top 1% hold $14 trillion, or 93x more assets in equities and mutual funds than the bottom 50%,** who hold just $160 billion[73]

+60%

Global GDP growth Asia projected to drive[3]

$30T

Transferred financial assets controlled by women in 2030[48]

Emerging Investor Universe Will Be Diverse

The emerging investor universe is diverse and global. Financial providers have a massive opportunity to capture market share by catering to the specific needs of each growing segment.

Segment: The Future is Female

By 2030, Women investors are projected to control ~$30 trillion in transferred financial assets, roughly the same size as the expected annual U.S. GDP in 2030.[48] Today Women are outpacing men in digital investment account openings, regardless of age and marital status, as reported by both traditional brokerage firms and new fin tech platforms alike, for example:

- » Number of women using Fidelity is up 41% in 2020 vs. 2019[15]
- » Number of women using Robinhood quadrupled from Feb 2020-21[6]

Providers looking to capture market share by catering to the financial needs of half the world's population should note:

- » Women are looking to get more "hands on" with over 70% of those polled in a recent sentiment survey expressing an interest in more active financial management in the next six months.[27]
- » 70%[51] of married women reported switching to a financial advisor within one year of a spouse passing away
- » Research[51] shows that women tend to take a more conservative and long-term approach to investing than men—attributed partially to the gender wage gap—and also tend to:
  - save more
  - construct a well thought investment strategy and stick to it, even through its ups and downs (men adjust their portfolio 50% more often)
  - make investments to maintain principal — many are goal oriented with lower potential returns

Segment: Emerging Affluent

The Emerging Affluent will become core drivers of growth for financial providers. There are two major segments within the emerging affluent category:

- » **Young, first time investors:** some positioned to benefit from the upcoming generational wealth transfer - and digital natives do not want their parents' broker
- » **Asian investors:** Asia will contribute ~60% of global GDP growth by 2030[3] making the mass or emerging affluent consumers in this region critical drivers of growth.[3]

The mindset of the emerging investor is different than previous generations, shaped by technology advances that have created unprecedented opportunities to reach beyond borders, invent their own side hustle, and "use their savvy to dictate (their) own fortune, and have equity upside." They view equity "as the golden ticket out of the tyranny of 9-5" and "capped upside."[23]

Offerings for these segments must be on par with the best in tech/consumer experiences:

- Data-driven, personalized mobile experiences
- 'Amazon-like' experience - information/ research, feature comparisons, reviews
- Capture consumers' behavioural preferences (e.g., desire for exclusivity, immersive experiences, balance between quality and value, brand price ladders)[44]

Segment: Consumers Become Investors via Digital Wallets

"Investing and saving will happen differently. It will be purpose driven, and it will be enabled by a whole new demographic – consumer companies. Companies that know how to engage users, how to speak their language, and how to make experiences seamless and fun. These **consumer companies will be changing the literal language of finance."[41]**

Embedded finance and the ability to power multiple experiences out of **a single digital wallet will be critical to converting consumers into investors.** Digital wallets make the experience of opening an investing account fast, frictionless and affordable. Many allow consumers to start investing in 2 minutes or less with as little as $1, removing the psychological barrier of saving up to meet the minimum thresholds of legacy financial institutions who have struggled to bring minimums down to $1,000.

The number of unique digital wallet users is forecast to exceed 4.4B globally in 2025, a 70% increase from 2.6B in 2020.[45] 71% of e-commerce spend in Asia is already generated by digital wallet,[16] and the U.S. is following suit.

AI Will Drive Customized Investing Experiences

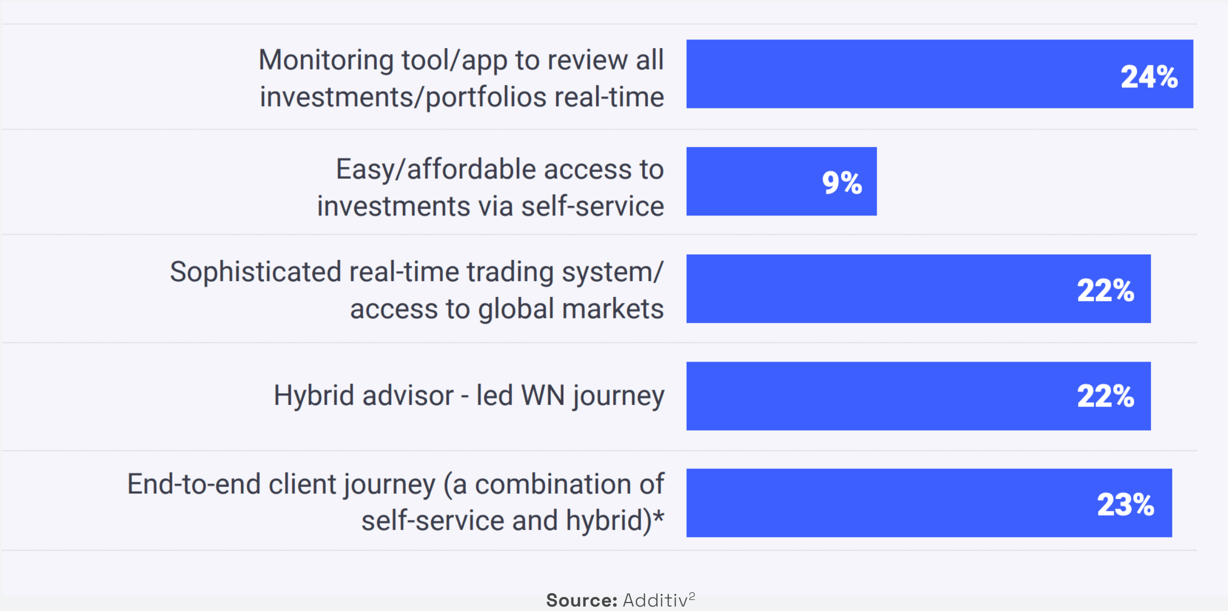
Global brands and Big Tech set the global standards for best in class user experiences. Just as consumers everywhere have come to expect reading and purchase recommendations, the **consumer/investor of the future will expect highly personalized financial advice and recommendations**, **on demand anytime from anywhere, all from the palm of their hand.** Even high net worth investors accustomed to white glove service want the convenience of a hybrid advice model - part human, part digital - for the convenience of accessing information and advice on demand.

Artificial Intelligence (AI and Machine Learning (ML) will drive a "transition from assets under management to assets under intelligence... meaning that asset management (keeping assets safe and preserving their value) will become increasingly commoditized and the value instead will move to helping clients to make smarter and financial decisions, including introducing them to the right third-party services." Technology will enable providers to empower their investors, at scale, so every client **"can have a portfolio perfectly matched to their specific goals and individual risk profile."[3]**

AI can help Advisors drive the bottom line for their investors and themselves. **"Predictive capabilities are a game-changer for any business,** but they're especially valuable in the high-stakes finance industry. Some studies estimate that **machine learning in fintech was worth close to $8B in 2020 and expected to top $26B by 2026."[35]**

What Are Your Investment and Wealth Management Channel Preferences in 2021?

Survey of HNW in Middle East



Source: Additiv[2]

Embedded Finance Will Give Rise to the Super App

Embedded Finance as a category is projected to be worth $3.6 Trillion dollars by 2030 in the U.S. alone[3]. Embeddable fintechs like payments and lending “make it simpler and more affordable for consumers to access products and services while opening businesses up to a whole new customer base.”[3]

Embedded Fintechs will give rise to the Super App, which will allow consumers to “handle all their shopping, social interaction, and financial affairs within one experience. A consumer will be able to enter the finance ecosystem from any app. Increasing the number of entry points into the ecosystem also accelerates the need to have **a central portal that can connect this consumer’s newfound financial life.** We can provide **professional grade access and tools through these consumer apps so customers are empowered”** and **“led towards financial wellness.** And we can connect the pieces. We will cultivate tomorrow’s advisor clients and will empower advisors to serve this new cohort. This is crucial...and...imperative for ...sustained growth.” — Dani Fava, Head of Strategic Development at Envestnet[41]

Democratization and Innovation in Investing Products Will Continue

The future is mobile, transactional and fractional - for any type of asset or exchange of things. Financial service **providers of the future will drive true innovation in terms of products and services that take democratization of investing to a new level.**

Crypto is the quintessential example of the power of democratized investing. It captured the attention of the young and underserved globally and taught many people how to think like an investor. In the US alone, 20 million, or 14% of the population own crypto, with 100K “Bitcoin millionaires” out there.[23] This **investing phenomenon has started to “seep into education, social networks, and the future of work.”**[23] The regulators are playing catch up.

Democratization Must and Will Continue

- **Angel investing -** the number of potential angel investors increased last year when the SEC expanded its definition of "accredited investor" to those demonstrating "financial sophistication and understanding of the private markets." Previously, to be an accredited investor, individuals needed an annual income over $200K ($300K for joint) for two consecutive years, or a net worth greater than $1MM, which excluded 92% of U.S. households[23]
- **Financial literacy and access to information -** social forums like Reddit and TikTok are providing unprecedented access and insights into investing strategies, plus viewpoints are no longer limited to the professionals

Fractionalize/Transactionalize

- **Events -** new contracts on all categories of events from international affairs to the weather are popping up, letting retail investors hedge risks in a completely new way
- **People** - new apps let people create a token, which empowers creators like Taylor Swift to convert their social currency into economic currency and leverage a token as a new way to interact with fans[23]
- **Things -** Markets for everything "...even sneakers are becoming just as valuable as legacy markets for commodities, such as oil, crops and gold." Tarek Mansour, Kalshi co-founder[23]

Embedded Finance Will Drive Embedded Fintech

Embeddable fintech, "the integration of fintech products and services into financial institutions' product sets, websites, mobile applications, and business processes," is expected to reach nearly $230B in revenue by 2025 in the U.S. alone[35]—up from $22.5 billion in 2020.

Legacy financial institution resources are heavily focused on maintaining lights on from a product, technology and customer service perspective. The world is changing rapidly and **only companies with the technology talent and budget to stay ahead of the curve will be able to retain and grow their market share,** particularly with ever-increasing competition from global brands such as Walmart and Big Tech.

Forrester found that many banks and other financial companies struggle simply to run business as usual technology projects:[2]

- 52% of banks that built banking technology completely inhouse missed their targeted timeline
- 45% of projects came in more than 25% over budget
- 81% attributed project delays to deploying basic infrastructure, designing client journeys and coding business logic and system logic

The future is digital and yet most financial institutions have not staffed their product and development teams to drive innovation. Many don't have the infrastructure to support competitive digital offerings - **60%**[34] **of financial institutions have yet to even deploy APIs or cloud computing**. Companies that can't compete technically will be forced to seek providers to power infrastructure and product offerings in order to survive. Failure to act will allow technology-forward companies to gain even greater competitive advantages that will serve them well into the future.[2]

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