

BUSINESS INSIDER

Investing apps like Robinhood aren't gambling tools that push new investors to make risky decisions. They're actually a great way to teach young people how to invest.

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Experience is life's greatest teacher, and it's time that financial regulators recognize it. While there are plenty of courses on how to invest, new investors need time in the market to really understand it, as any professional will attest. Like hours behind the wheel while learning to drive, actual investment experience might be precisely what America needs to fix its abysmal financial literacy.

Stock ownership is a path to building wealth, but many have been left out of the opportunities offered. Owning stock in the US has been highly correlated with race and age, and low financial literacy has likely worsened inequality. But over the course of the past year, a host of younger and more diverse investors have opened brokerage accounts for the first time, creating the potential to improve on these trends.

However, rather than welcome new investors to the market, the SEC's 2021 agenda is posed to drive them out. Pointing to its "investor protection" mission, the SEC is looking to impose new regulations on the very features that encouraged new investors to participate in the market in the first place - like the "gamification" of trading apps that makes investing more engaging and less intimidating or the payment-for-order-flow that supports zero-commission trading. But while some advocates are trying to protect new investors from making poor decisions by limiting their access, brokerages are giving investors market experience that can help them make better decisions over time. The SEC needs to recognize the value of this experience in improving financial literacy and not limit new investors' access to the market.

That's not to say that brokerages - including newer trading apps - are not without flaws. But it would be a mistake to overlook their recent successes in attracting new investors. A record-breaking 10 million new brokerage accounts were opened in 2020, and 10 million more have been opened so far in 2021. Through a combination of little-to-no service fees, low minimum

balances, fractional share trades, and appealing app aesthetics, brokerages have forged a space that is not only welcoming, but fun.

Learning by doing

Investor education has long been a challenge: white papers, books, lectures, articles, and dry SEC investor advisories have all made little impact on financial literacy. The SEC's new investor education campaign and the Financial Industry Regulatory Authority's new educational initiative are trying to reach new audiences. But financial education, like any other type of education, deteriorates rapidly unless it is used in practice.

By taking investment resources out of manual-like readings and placing them into eye-catching and easy-to-use apps, these brokerages are marrying educational resources with the idea of "learning by doing." They have motivated new investors, through gamification, to explore financial markets and understand what makes them tick. And this should come as no surprise since countless studies have already shown that gamification can be a successful educational tool.

As these attractive features continue to encourage new investors to experiment with investment options, more people will learn the do's and don'ts of the financial realm. In other words, as Americans gain financial experience, they will also gain financial literacy.

This approach is all the more encouraging for younger investors, who tend to invest with smaller amounts of money and have a longer time horizon over which to make up for mistakes. We should welcome products aimed at younger investors, including teens, who can begin to gain experience in the market - perhaps with the support of their families. These products offer an approach that will help put classroom-style learning into action, reinforcing lessons and teaching new ones.

While this approach might be foreign to the financial realm, it should feel quite familiar in general. Think about when teenagers get behind the wheel for the first time. Most parents will encourage them to practice around the neighborhood and in parking lots at first. Yet, there is no law forbidding those with learner's permits from driving on the highway. In fact, young drivers are encouraged to get on highways early so they can learn just how to handle it.

Experience really is the best teacher - whether it's merging into the fast lane or weathering a market event - which is why it is so important for investment apps to be able to hand over the keys and give people the opportunity to make real financial decisions.

With all of the talk about protecting investors, it's important not to lose sight of the fact that people who are kept away from the markets by high costs or burdensome regulations lose the opportunity to become investors. Innovations in trading platforms that encourage new investors to enter the market can play a powerful role in educating them, just by providing them with experience. The SEC must not restrict investors' freedom to choose how they would like to invest and learn in a way that fits their life, allowing them the opportunities to build both their financial literacy and their wealth.

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