EUROPE MARKETS

Cautious German Savers Brave the Stock Market

Negative bank rates and booming U.S. stocks like Amazon, Tesla—even GameStop—embolden investors

By Patricia Kowsmann
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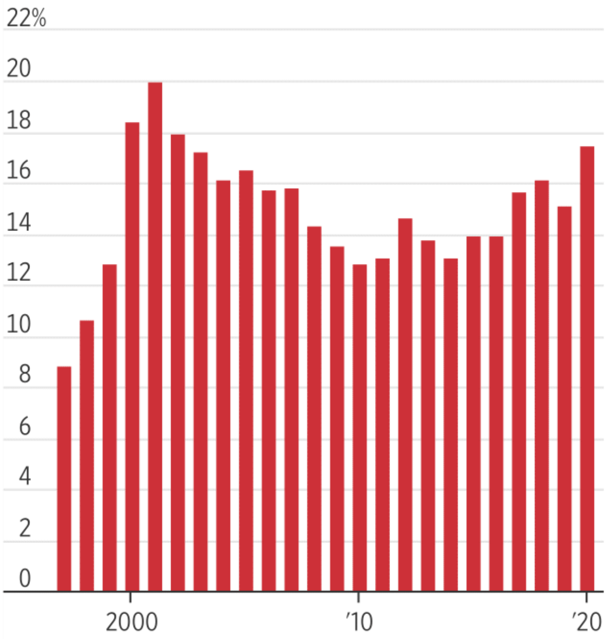
Michael Schacht, 70 years old, is a typical German saver. Risk-averse, the clothing-shop owner kept the equivalent of $300,000 in a local bank in a small town near Hamburg.

Then, earlier this year, Mr. Schacht's bank told him it wanted to charge him a negative 0.5% interest rate to hold his money.

Furious, Mr. Schacht did something he never considered: He put it all in the market. His portfolio includes investments in stocks and corporate bonds from Europe and elsewhere through funds, plus gold and silver.

"I don't want to make lots of money, I just want a low-risk investment that provides a reasonable return on capital, like 2%, 4%," Mr. Schacht said. "That has always been realistic in the past."

Percentage of Germans* holding shares directly or through funds



Source: Deutsches Aktieninstitut; *age 14 and above

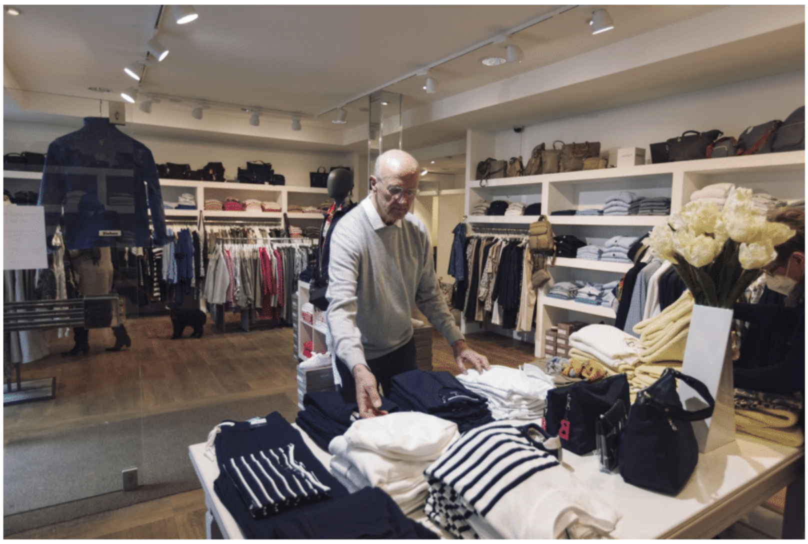
More Germans entered the stock market for the first time during the pandemic than in any stretch since the dot-com boom. Deutsches Aktieninstitut, a finance-industry association, estimates that 2.7 million people in Germany started owning shares directly or through funds last year, boosting the investor total to 12.4 million, up 28% from 2019.

Still, less than 18% of Germans 14 years of age and older hold shares, equity funds, or exchange-traded funds. In the U.S., 53% of families hold stocks directly or indirectly, according to the Federal Reserve. If more savers in Europe's largest economy shift to stocks, that could ripple through the market.

Germans have long resisted investing directly in stocks and other risky assets, preferring the safety of guaranteed bank deposits. Most Germans also rely on generous state pensions to fund retirements. Some were burned by a similar surge into shares before the dot-com bust.

But the punishing reality of negative rates has changed the equation. Also playing a role in getting Germans to invest: increased savings during the coronavirus pandemic, free time resulting from lockdowns and a young population excited about the boom in U.S. tech stocks.

"My new buyers are U.S.-stock buyers" going after Amazon.com Inc., Tesla Inc. TSLA -3.46% ▼ and other tech giants, said Erik Podzuweit, founder and co-chief executive officer at Scalable Capital, a Munich-based online broker.



Michael Schacht, who wants just 'a reasonable return on capital,' in his shop in Hamburg.
PHOTO: MARZENA SKUBATZ FOR THE WALL STREET JOURNAL

Mr. Podzuweit said while in the past German investors showed a strong preference for domestic companies, more than 60% of stocks and ETFs now trading on his platform are U.S.-based. During the GameStop Corp. GME -6.56% ▼ frenzy in January, 3% of his users were trading the U.S. company's shares and were very active.

Alexander Hösle, a 29-year-old financial controller in Munich, grew up with his parents telling him to be conservative with his money. In February last year, he used Scalable to invest nearly $10,000, or 10% of his savings. First he latched on to ETFs. Later he snapped up shares in Apple Inc., Tesla, German software company SAP SE SAP 0.77% ▲ and Deutsche Post AG DPSGY 2.11% ▲

He checks his portfolio twice a week. His next potential investment is in German travel operator TUI AG , which Mr. Hösle said could gain when the pandemic eases and tourism in Europe restarts.

"The reality is that there aren't better alternatives for your money out there," Mr. Hösle said.

‘In my 22-year career, I have never seen anything like this.’

— Asset manager Ottmar Wolf

Similar to Robinhood Markets Inc. in the U.S., online brokers are pulling investors in with free trades. Scalable, in operation since 2016, offers various package options that include free trades for members who pay 36 euros a year (equivalent to $43) and a per-trade charge of 99 European cents for nonmembers. At banks, the charge can be €10 a trade.

Since mid-2020, Scalable’s active users and the amount they are investing have doubled. The broker has more than 250,000 customers and close to €4 billion in assets under management. Most Scalable customers trading for the first time are in their 20s, early 30s.

So far, the new entrants to the market have seen only good times. The DAX index, Germany’s local benchmark, is up 37% from a year ago including dividends. That has outpaced the S&P 500’s total return, which for German investors is up 30% when accounting for the fluctuation in the euro.

Banks are also trying to push customers to move their cash from deposits to investments, but keep it within the same institution. Deutsche Bank AG DB -1.86% ▼ said its customers transferred €5 billion from bank deposits into investment products last year.

Mr. Schacht, the clothing-shop owner, put his savings with FAM Frankfurt Asset Management AG, a boutique firm. Ottmar Wolf, FAM’s co-founder and chief investment officer, said assets under management at the two-year-old firm grew 25% over the past 12 months as wealthy and retail clients fled negative rates on their bank accounts.

“In my 22-year career, I have never seen anything like this,” Mr. Wolf said.

—Tom Fairless contributed to this article.