Understanding the Do-It-Yourself Investor: A New Type of Entrepreneur

by

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ABSTRACT

In this paper we introduce a new type of entrepreneur, an individual who chooses to build and manage their own investments in order to achieve self-employment status and/or financial independence. These individuals are engaging in the contemporary phenomenon of Do-It-Yourself (DIY) investing. This paper will explore the literature surrounding this contemporary movement and will highlight the importance of shifting this topic into the academic spotlight. This paper is a precursor to a phenomenological study that will take an in-depth look at the personal, work-life experiences of individuals who pursue DIY investing. We argue that there is a need for research which captures the complexities and richness of the individual experience of this new type of entrepreneur.

Keywords: new dimensions in entrepreneurship; self-employment; entrepreneurs; entrepreneurship; characteristics of entrepreneurs.

DO-IT-YOURSELF INVESTING: AN INTRODUCTION

In this paper we explore the contemporary phenomenon of Do-It-Yourself (DIY) investing, a form of entrepreneurship where individuals chose to build and manage their own investments in order to achieve self-employment status and/or financial independence\(^1\). Individuals may be motivated by one, or both of these goals. While the type of investing can vary, it most often relates to investing in the stock market (shares, contracts for difference (CFDs), options, or futures) or real estate (commercial or residential). To gain the necessary knowledge required to DIY invest, individuals will often seek out “educators” that claim to be able to show them how-to-do-it (and usually for a fee). This knowledge can be delivered through seminars, courses, books, DVDs, home-study courses, software, the web, or through personal networks (such as family members or friends). There are exceptions, of course, with some DIY investors deciding to undertake their own investing without the acquisition of knowledge from another source.

The promise of financial independence is promoted by many investment educators and authors as the ultimate goal of DIY investing. In its simplest form, “financial independence” is the point at which a

\(^1\) As no definitive definition of DIY investing exists within the literature, we have provided our own.
person’s passive income is sufficient so that work becomes optional and retirement is achievable (Kreager 2008). Passive income, or residual income, is derived from interest or dividends from investments, or income from rental property. The greater the level of passive income, the more lifestyle options that become available. Alternatively, the individual may seek out DIY investing as a form of self-employment, with no expectations of an early retirement. The self-employed are classified as either owners of businesses that employ no others (‘independents’) or owners of businesses that employ others (‘owners’) (Prottas 2008). In general, DIY investors operate as ‘independents’: they set their own pace, work schedule, lifestyle and work habits. According to Schien (1978: 157; 1994) these types of individuals value autonomy and independence, which can then limit the type and size of the business. As the concept of financial independence is so fundamentally tied to DIY investing, we contend that most self-employed DIY investors will still be motivated to reach a level of financial independence at some stage in their lives.

DIY investing has largely been ignored in academic research, which makes it difficult to determine with accuracy the size of this phenomenon. However, a review of the popularist literature on this topic reveals the significance of the DIY investment movement. A Google search uncovered millions of sites on “DIY” investing (1,950,000) and related terms, including “financial independence” (1,060,000); “real estate investing” (3,560,000), and “share trading” (1,100,000) (Google, viewed 1 June 2009). Similarly, book stores across Australia (and other Western countries) devote large sections of shelving to the topic of wealth creation through DIY investing. A quick browse shows titles, often highly emotive, aiming to convince the reader that the author can show them how to invest to achieve financial independence: “Trade Your Way to Financial Freedom”; “Secrets to Creating Passive Income and Becoming Financially Free”; “How I Made $2,000,000 in the Stock Market”; “Wise Women Invest in Real Estate: Achieve Financial Independence and Live the Lifestyle of Your Dreams”. Amazon, one of the largest online bookstores in the world, references 54,086 books with the words “get rich” within their title, a further 16,450 books referencing “financial independence”, and 46,141 books referencing “investing” (Amazon.com searched 1 June 2009).
Within an Australian context, public interest in DIY investment has flourished over the past decade, with increasing magnitude over the last two to three years (Mangioni 2007). The magnitude of this phenomenon can be gleaned through the attention it has received in the popular press and from the volume of DIY investment education courses available. One DIY investment educator claims to have taught over 225,000 Australians and New Zealanders how to invest in shares and property to achieve “financial freedom” (Website http://www.neverworkagain.com.au/ viewed 7 June 2009). PropertyInvesting.com, an Australian website and forum for property investors, reports that it has over 71,634 individual members (Website viewed 7 June 2009). While we may not be able to verify these statistics, the profits that can be generated from selling DIY investment education can be substantial; the Ministerial Council on Consumer Affairs Working Party, (2004) reports that an Australian investment seminar educator generated $37.5 million in turnover in one year. This public interest in DIY investing is also evidenced by the popularity of stories in the media showcasing individuals who have “successfully” invested in property or the stock market in order to achieve financial independence. An Australian newspaper column that detailed how investors could make $75,000 in the share market in three months generated such an intense level of public interest, with more than 250,000 online page views in 24 hours that the author felt the need to comment on this ‘remarkable’ response in a follow up column (Mayne 2009: 1).

**FACTORS INFLUENCING THE GROWTH OF DIY INVESTING**

**Ageing of the Baby Boomer Population**

The growth of DIY investors in the Australian market is being driven by a number of factors. First, the anticipated retirement of the baby boomer generation within the next decade will mean a large proportion of the population will be withdrawing their retirement funds from superannuation investments and shifting them into other investment opportunities, including directly held investments (Australian Securities Investment Commission [ASIC] 2008). Fuelling this shift, many people within this age group will be forced or “pushed” into DIY investment activity due to the decline in traditional
corporate career opportunities, insufficient retirement funds, or inadequacies in current pension entitlements (Haveman, Holden, Wolfe & Sherlund 2006; Kelly 2006; Quine, Bernard & Kendig 2006; Weber & Schaper 2003). This problem is not just confined to the baby boomer generation, with recent studies finding that younger age groups are not saving enough, or commencing saving too late to ensure an adequate retirement income (Purcell 2004; Skinner 2007).

Within the entrepreneurial literature, individuals who undertake self-employment out of economic necessity, unemployment or redundancy are classified as ‘necessity entrepreneurs’ (Bögenhold & Staber 1991; Douglas 2007). Douglas and Shepherd (2000) add that this form of entrepreneurship is also undertaken when there is no other employment option available that offers greater psychic utility. Depressed market conditions, including slow economic growth and rising levels of unemployment, can cause an increase in the number of self-employed (Bögenhold & Staber 1991; Highfield & Smiley 1987; Hudson 1989). With the impact of the current economic global “credit crunch”, we postulate that a number of Australians may be “pushed” into this mode of employment, at least temporarily, in order to survive.

**Emergence of the ‘Boundaryless Career’**


In a similar vein, the entrepreneur literature points to the emergence of ‘lifestyle entrepreneurs’, a group motivated by the desire to start a business as a means to enhance quality of life and achieve
self-fulfillment (Buttner & Moore 1997; Marcketti, Niehm & Fuloria 2006). Lifestyle entrepreneurs are usually sole traders, employing few or no people. Their main objective is to obtain independence and freedom from the work environment, rather than on maximising wealth (Frederick & Chittock 2006). While their business may not make as much money as they might in a traditional employment role, lifestyle entrepreneurs are compensated through non-monetary benefits, such as being their own boss, avoiding high-stress work situations and having the time to pursue leisure activities (Douglas, 2007). Accordingly, the business is designed to provide the entrepreneur with an acceptable level of income, at a ‘comfort level’ of activity (Deakins & Freel 2003; Burns 1996: 5); and it is often an extension of their preferred leisure pursuits (Douglas, 2007). We content that DIY investors could fit into the category of the ‘lifestyle entrepreneur’, as they share a similar desire to obtain independence and freedom from the work environment and achieve a lifestyle that enhances personal well-being and quality of life.

**Society’s Increased Preoccupation with Wealth**

Third, we argue that DIY investing is being driven by western, capitalist culture, where people are increasingly being reminded that the way to achieve the “good life” is to acquire more wealth (Hamilton & Mail 2003), and with it freedom, a better standard of living, security, power, and even love (Tatzel 2002). We remind readers that individuals can pursue DIY investing not only to achieve self-employment status (and freedom from the work environment) but also to achieve wealth, and with it financial independence. Individuals may be motivated by one, or both of these goals. People are encouraged to attain enough money to be financially independent because attaining financial freedom is the key to achieving their other dreams (Pratt 2000: 465). The orientation towards wealth or ‘getting rich quick’ is a characteristic of the ‘speculative entrepreneur’ (Douglas 2007: 645). These entrepreneurs are motivated by the opportunity to make a relatively large amount of money within a relatively short period of time (up to several years), after which the individual may exit the venture by sale or acquisition (Douglas 2007). Similarly, DIY investors could be viewed as ‘speculative entrepreneurs’, as many of these individuals are motivated by the desire to create investment vehicles
that generate a large amount of wealth, often in a relatively short period of time. This is evidenced by the abundance of “get-rich-quick” strategies currently being promoted by DIY investment authors and seminar promoters in the Australian marketplace.

It is important to note here that while a DIY investor may fit into either one of the ‘necessity’, ‘lifestyle’ or ‘speculative’ entrepreneur categories, we propose that a DIY investor is more likely a composite of the characteristics of the ‘lifestyle entrepreneur’ and the ‘speculative entrepreneur’. As such, we suggest a new category for this group: the ‘DIY entrepreneur’. The DIY entrepreneur embodies both a high orientation towards lifestyle and leisure and a high orientation towards wealth (Biggart 1989; Brodie 1999). We argue that these individuals are interested in acquiring both the time and money necessary to allow them to do what they want, when they want – and this is achieved by creating investment vehicles that generate recurring and sustainable sources of passive income, without consuming time. The ensuing lifestyle, which is often compared to escaping the “rat race”, consists of spending quality time with family and friends, travelling overseas, purchasing luxury goods and services, buying the “dream house”, or pursuing a hobby or vocation that provides personal meaning and self-fulfilment (Ferriss 2007; Kennedy and Mavondo 2002; Kiyosaki 2001; McIntyre 2002; Whitney 1994).

The Advent of Online Trading

Fourth, the arrival of online trading (also called online investing), introduced in 1994, has contributed to the rapid growth in the number of DIY investors (Maniam, Mehta & Leipnik 2000). Online trading, which is the use of the internet to invest in equities, has been called ‘the ultimate empowerment of the individual’ (Pettit & Jaroslovsky 2002: 13) and is now considered a “mainstream” practice within society (Minkoff 2000). Direct investment in shares is the third most popular investment choice in Australia, behind superannuation (retirement savings and pension accounts), and cash (Clark-Murphy

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2 The term “rat race” invokes an image of a lab rat futilely trying to escape whilst running around in a wheel or in a maze. This analogy is often applied to the world of work, where many individuals see work as a seemingly endless, self-defeating and pointless pursuit, with little reward or purpose, and little chance of escape.
CommSec, Australia’s biggest online broker, reports to have over 1.4 million registered accounts (Parker 2006). Within an Australia context, the privatisation of many government organisations has resulted in this growth of investment activity, with 38% of the adult population, approximately 6 million people, holding shares directly in the stock market, a figure which rises to 46% when indirect share investments through managed funds are included (Australian Securities Exchange 2007). Further, the widespread adoption of online trading is being attributed to the fact that it offers investors a combination of high growth and earning potential, low entry costs, convenience (24/7 access), and personal empowerment (Konana, Menon & Balasubramanian 2000; Looney, Valacich, Todd & Morris 2006; Vogelheim, Schoenbachler, Gordon & Gordon 2001). The popularity and growth of online trading is significant and gives further credence to the importance of investigating the DIY investment phenomenon. We assert that trading, (along with property investment) is one of main investment vehicles used by DIY investors in order to achieve self-employment status and/or financial independence.

AN IMPORTANT GAP IN THE LITERATURE

Despite the apparent prevalence of the DIY investment phenomenon and its expected growth over the next decade, extensive literature searches uncovered little scholarly research on this subject. Only a handful of academic studies were located that related specifically to the DIY investor, and none that linked DIY investing to career theory or the entrepreneur literature. Instead, literature addressing the DIY investor was mostly found in the consumer, economic and finance arenas, and viewed through a quantitative lens. This literature examined the attitudes and trading behaviour of stock market investors (Keller & Siegrist 2006; Uchida 2006; Wood & Zaichkowsky 2004); the problems, challenges and implications of online investing (Coyne & Traflet 2008; Konana & Balasubramanian 2005; Looney et al. 2006; Maniam et al. 2000; Mitchell & Smith 2004; Zwick, Denegri-Knott & Schroeder 2007); investment decision making drivers, behaviours and attitudes (Australian Securities and Investments Commission [ASIC] 2008; Clark-Murphy & Soutar 2004; de Bruin & Flint-Hartle
2003; Filbeck, Hatfield & Horvath 2005); and the factors influencing investment decision making in residential real estate (Brown, Schwann & Scott 2008; Mortenson & Seabrooke 2008; Somil 2007). These studies were carried out in Australia, Canada, Denmark, Germany, Japan, New Zealand, Switzerland, the United Kingdom, and the United States.

Within this body of work, a number of authors commented on the need for more research on DIY investing. Brown et al. (2008: 140) noted that there were ‘surprisingly few studies’ that examined property investing by individuals, while Vogelheim et al. (2001) exclaimed that despite online trading being identified as a major social phenomenon, it had largely been overlooked in the academic literature. Our literature review uncovered only one scholarly study that took an in-depth look at the DIY investor. This Australian study investigated the process of empowerment by active participation in a women’s share market investment club (Elsworth, 2005). It was inspired by the author’s own personal journey as she sought to establish financial security for her future through investment self-education. However, the study was limited to empowerment and adult learning theory.

**CONCLUSION**

As the above discussion suggests, the DIY investor is a highly relevant yet largely under-researched phenomenon. Given the anticipated growth of DIY investors over the next decade, we believe that understanding this phenomenon will be of great importance to academia, the business community and public policy, and thus is worthy of further scholarly examination. We recommend further research in the following areas. First, we believe research is required to address the subjective work-life experiences of the DIY investor, including the social, emotional, financial, psychological, health and wellbeing, and relational impacts that result from this work-life choice. Second, it would be beneficial to understand the particular work and life context within which individuals seek out DIY investing to understand the drivers and motivators that influence their decision. Third, we suggest an examination of the factors that lead individuals to pursue DIY investing over other career/lifestyle options, such as
owning a business or franchise, or being an organisationally-tied employee. Fourth, research should test the core assumptions that DIY investing is a viable alternate to employment and/or can lead to financial independence by examining the success and failure rates of DIY investors, at the macro level (using quantitative analysis), and at a more personal, individual level (using qualitative analysis). Fifth, it would be valuable to gain an understanding of the level and type of support resources available to DIY investors, and what type of assistance is required. Sixth, we need to establish the size and reach of the DIY investment industry, as the authors were unable to locate relevant statistics reporting participants, operators or spending on an annual basis by consumers in this industry. Lastly, within this paper, we have linked the DIY investment concept to current entrepreneurship and career research. We assert that if this phenomenon continues to be overlooked, these disciplines, and others, will be in danger of losing the opportunity to examine the rich, dynamic, and undeniably changing, concept of career and lifestyle.

This paper is a precursor to a qualitative study that will bring to the fore the personal stories of DIY investors, and explore many of the research gaps mentioned above. Specifically, the primary aim of this research will be to understand the subjective work-life experiences of people who self-identify as DIY investors. As little is known about the topic, this research will be exploratory in nature, designed to uncover and generate new ideas, and bring an under-researched topic into the scholarly spotlight for discussion and debate. Due to the underdeveloped nature of this research, a qualitative approach will be used to draw out new themes and conceptual discoveries (Sarantakos, 1993). This process will encompass the methodological use of phenomenology to illuminate the lived experiences of DIY investors (Taylor, 1993: 174); uncover shared meanings (Madjar and Walton, 1999); and develop a framework for understanding this phenomenon, and the related concepts of career, lifestyle, wealth and retirement.
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