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Rebuilding after the bubble

Did the dotcom crash reshape Britons' willingness to invest?

Fidelity INTERNATIONAL

Foreword

Cash is often described as king in the UK. Yet that has not always been the case. In the late 1990s, British households allocated far more of their wealth to investments than they do today – at times holding as much, or even more, in markets than in cash. The dominance of cash we see now is therefore not a fixed national trait, but the result of a shift in behaviour. And if behaviour changed once, it can change again.

This report examines that shift. When the dotcom boom burst in the early 2000s, the proportion of household financial assets held directly in investments fell sharply. Perhaps more tellingly, it has never returned to this previous peak. Over the same period, cash has taken on an increasingly prominent role in household finances, reaching levels not seen in decades.

Market downturns are part of the economic cycle. Their impact on household behaviour, however, can shape financial decisions for decades.

Using government data spanning nearly four decades, we find that UK households today hold a record share of their financial wealth in cash. The gap between cash and investment holdings is also particularly wide – reaching a record high in 2024 and remaining among the largest on record in 2025. This likely reflects a combination of behavioural, demographic, and structural factors.

If households held a similar share of their wealth in investments as in the late 1990s, this would amount to an additional £414 billion in productive assets – capital that could be supporting growth in the UK economy.

At the time of writing, markets are experiencing renewed volatility. Periods like these can make investing feel daunting. Yet history shows that uncertainty is a constant feature of markets, not an exception. If households only invested when conditions felt stable, many would never invest at all.

A quarter of a century after the dotcom crash, the UK may be approaching another defining moment – one in which a renewed focus on financial resilience and growing policy attention create an opportunity to rebalance from cash back towards long-term investing, with all the benefits that could bring.

The industry's, 'Invest for the Future' campaign, which is supported by the Government and regulators, reflects a growing recognition that stronger household participation in capital markets is critical not only for individuals, but for the broader UK economy. Fidelity International is proud to support this ambition.

As an investment and pensions provider, we see, through decades of experience and data, the tangible benefits that long-term investing can deliver – from enabling people to enjoy better, more secure retirements to supporting deeper, more productive capital markets.

The challenge now is not whether those benefits exist, but whether more people feel able to take part in them.

Jeff Harris
Head of Global Platform Solutions

Section 1: The dotcom legacy – a structural shift in UK household investing

1.1 A peak that was never revisited

At the height of the dotcom boom in 1999, UK households held approximately 23% of their financial assets directly in investments. That marked a high-water mark in modern records.

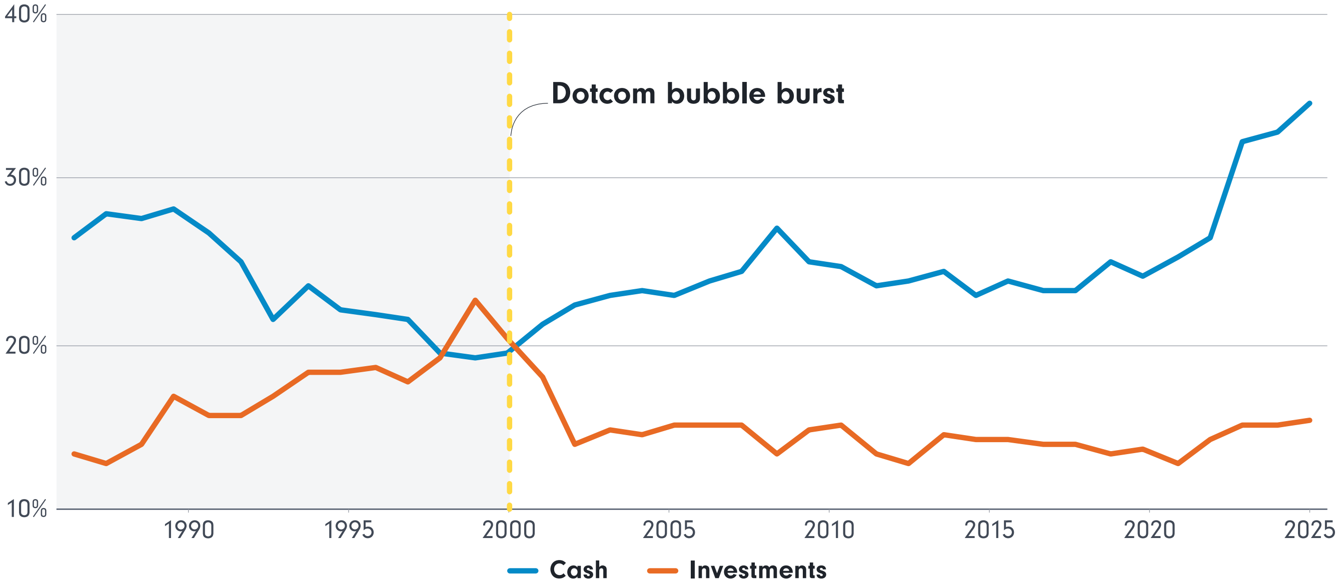
This analysis is based on UK Government data newly examined by Fidelity International, tracking long-term shifts in household balance sheets from the start of 1987, when the data series begins, to the end of 2025.

When the technology bubble burst, equity valuations fell sharply. As expected, the value of households' stock market holdings declined. More striking, however, is what happened next.

Despite more than two decades of subsequent global market growth and compounding returns, the share of UK households' financial assets held directly in investments fell sharply in the early 2000s and remained consistently lower ever since.

By "direct investments", we are referring to assets such as equities and investment funds held outside of pension wrappers – the clearest indicator of active participation in capital markets.[1]

Percentage of total household financial assets



Source: Fidelity International analysis of the UK Economic Accounts

1 Financial derivatives and employee stock options are not included within this category. However, they make up less than 0.5% of financial wealth and so would not change the numbers materially.

1.2 The rise of cash dominance

As of the end of 2025, cash accounts for 35% of UK households' financial assets, the highest proportion since records began in the 1980s. By contrast, only around 17% is held directly in investments. The only year when the difference between the two was greater was 2024, when it reached a record high.

While investments held indirectly, through channels such as pensions, increase overall exposure to approximately 63%, the decline in direct participation in capital markets remains stark. Direct investment – the clearest signal of appetite for exposure to risk and return – has never recovered.

The shift accelerated during periods of heightened uncertainty. Since Covid-19, the proportion of assets held in cash rose from 25% in 2020 to 35% by the end of 2025, with the sharpest increase occurring during the 2022 cost-of-living crisis.

While cash can provide short-term security, its value is eroded by inflation over time, meaning an over-reliance on it can carry a significant long-term cost.

1.3 A £414 billion participation gap

The implications of this shift are substantial. If UK households today allocated 23% of their financial assets to direct investments – the same proportion reached in 1999 – there would be approximately £414 billion more invested in markets. This figure is based on total household financial assets of approximately £6.6 trillion.

£1.1 trillion
Currently invested

£1.5 trillion
If we returned to 1990s levels of investment (23% of financial assets)

This is equivalent to roughly 14% of UK GDP, underscoring the scale of the opportunity[2]. The number would likely be higher had households maintained a 23% allocation to investments since the 1990s, as they would have also benefited from more than two decades of global market growth.

This £414 billion is more than a statistical gap. It reflects:

- Potential lost compounding over two decades
- Reduced opportunities for building retirement wealth
- Reduced household participation in economic growth
- Forgone capital in UK markets

It is important to note that the steady increase in equity ownership in the late 1990s is likely to have been driven in part by the stock market bubble developing over that time. While it is clearly not desirable to return to a time when speculation fuelled unsustainable company valuations and poor investment decisions, there is a wide body of research showing that many Britons are under-exposed to the stock market, especially when compared to their peers in countries like the US, and that is harming their long-term financial futures.

What's more, the recent divergence between investment holdings and cash has mainly been due to the stark jump in cash savings among UK adults since 2021. This suggests that the key to solving the UK's investment puzzle lies not just in showing people the benefits of investing but also in showing them the risks of holding too much cash.

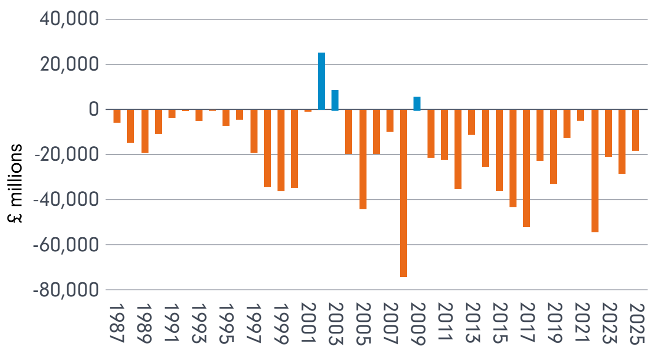
1.4 Net selling: a sustained pattern

Between the start of 2001 and the end of 2025, UK households were net sellers of more than £566 billion of investments. In 22 out of 25 years, households sold more than they bought.

2 GDP – data tables - Office for National Statistics Based on GDP of approximately £3.04 trillion

Even as markets recovered from the early-2000s crash, and again after the Global Financial Crisis (GFC), households did not meaningfully rebuild direct stock market exposure. Although, as we discuss later, there could be other factors at play here, particularly demographic ones.

Chart 2: Net household investment flows (2001–2025)



Source: Fidelity International analysis of the UK Economic Accounts

1.5 The psychological trauma of a market crash

The retreat from investments following the dotcom crash is psychologically understandable.

Academic research has shown that people who lived through low stock market returns are less likely to invest, less likely to take on financial risks, and even those who do hold portfolios typically have less in stocks.[3]

A similar pattern appears to have played out in Japan. After a major stock market bubble burst in the 1980s, Japanese households became much less likely to hold risky assets like shares. Again, there were likely other factors at play, including the country's ageing population.[4]

Parents who are wary of investing may be less likely to raise children who are knowledgeable about, or comfortable with, investing. This could help to explain how a single market shock can have effects that persist across generations, dampening a country's long-term investment culture.

However, it is helpful to compare the UK's trajectory to that of the US.

The share of US households' financial wealth held directly in equities rose from around 12% in 1987 to 25% at the start of 2000. As in the UK, this fell sharply during the dotcom crash, reaching around 15% by the end of 2002. However, it subsequently recovered, falling again during the 2008 financial crisis before rising once more.

This close co-movement with market valuations suggests that, unlike in the UK, US households' exposure to equities was not permanently reduced following the dotcom crash. By the end of 2025, Americans held a third (33%) of their financial wealth directly in stocks and shares.[5]

These figures are not directly comparable with the UK data. In the US "directly held stock" does not include investments in funds (which the UK numbers do include). In addition, the US data cover households and nonprofit organisations combined. The comparison should therefore be interpreted with caution, though it still suggests a divergence in post-dotcom investment behaviour.

1.6 Why the dotcom crash – and not 2008?

The GFC in 2008 did not trigger a similar long-term collapse in direct investment participation in the UK as the dotcom crash.

There are several possible explanations:

- By 2008, households had already reduced equity exposure significantly.
- The GFC was primarily a credit-driven crisis, rather than a stock market valuation bubble.
- Housing and pension wealth may have borne the brunt of perceived losses.

3 [Depression Babies: Do Macroeconomic Experiences Affect Risk-Taking? | NBER]
4 [Household Portfolios in Japan | NBER]
5 [The Fed - Chart: Balance Sheet of Households and Nonprofit Organizations, 1952 - 2025]

1.7 Structural and demographic factors

The evidence suggesting the dotcom crash may have had a lasting impact on Britons' willingness to invest is compelling. However, we should not over-assume, and other forces likely contributed to the shift from equities to cash:

- Rising household debt in the early 2000s may have reduced households' capacity for risk-taking.
- The period of rising cash levels we have seen coincides with the maturing of the Baby Boomer generation and a significant increase in older adults in the UK. Older households typically hold more wealth in lower-risk assets, which could have contributed significantly to the shifting balance towards cash over investments.
- Changes in workplace pensions and regulatory structures have altered how investments are held. More people may now be using their workplace pensions as their primary vehicle for investing in the stock market.

This final point is important. For many people today, pensions will be the most tax-efficient way of getting access to the stock market, so we should not jump to conclusions when looking only at investments held outside of retirement wrappers.

However, the share of assets held in pensions is lower now than for much of the past four decades, our analysis finds, and various surveys have shown that a sizeable proportion of UK adults are not aware their pension is invested. Taken together, this suggests the fall in direct investing cannot simply be explained by people choosing to invest within pension wrappers instead.

Section 2: The long-term cost of stepping out of the market

Marianna Hunt
Personal Finance Specialist

For many investors, the losses experienced during the dotcom crash were deeply painful. However, over the long term, withdrawing from the stock market and failing to reinvest would likely have proved even more costly.

The scenario below illustrates the scale of that cost. Over a period of more than 25 years, it could mean the difference between accumulating £152,967 and just £38,398 – a gap of almost £115,000. We illustrate this through two hypothetical savers: John and Jane.

Both John and Jane started investing on 1 January 2000 with an initial £5,000 lump sum. They each either saved or invested £1,000 per year after that. John, unsettled by the market turbulence in the early 2000s, chose to put his annual £1,000 contributions into a cash savings account. He initially kept his £5,000 invested but, as markets continued to fall, sold his holdings on 31 December 2002 at a loss and transferred the remaining funds into cash savings.

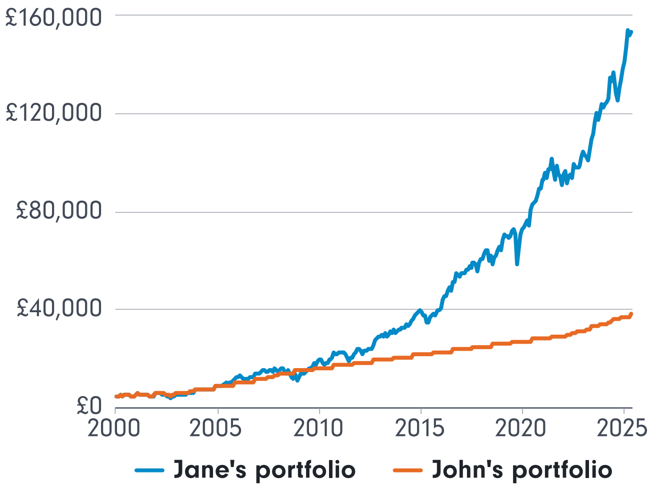
Jane, by contrast, remained invested throughout. She kept her initial £5,000 in the market despite early losses and continued to invest £1,000 each year. This meant staying invested not only through the aftermath of the dotcom crash, but also through subsequent periods of market stress – including the Global Financial Crisis, the Covid-19 pandemic, and the sharp interest rate rises of 2022.

By 1 January 2026, John's total savings would amount to £38,398. Jane's portfolio, however, would have grown to £152,967. This illustrates a central principle of investing: periods of crisis are a recurring feature of markets, but stepping out of the market during those periods can carry a far greater long-term cost than remaining invested through them.

There will always be reasons why "now" feels like a bad time to invest. But over the long term, those who invest anyway tend to be rewarded.

In this analysis, we assume that all returns are reinvested. Investment returns are approximated using the MSCI ACWI Total Return Index (GBP), while cash returns are proxied using SONIA.

The cost of permanently moving into cash after a market crash



Source: Fidelity International analysis of LSEG Workspace data.
Past performance is not a reliable indicator of future returns. Investing over five years can increase your chances of a better return than cash savings. But, unlike cash, investing isn't risk-free so you may get back less money than you invest. Overseas investments will be affected by movements in currency exchange rates.

Section 3: A nation of reluctant starters but confident investors

The paradox is that, among the minority of Britons who do engage actively with stock markets, we appear to be some of the most confident investors in the developed world.

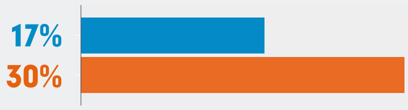
New research by Fidelity, based on a survey of **13,000 retail investors** in **13 markets across Europe and Asia Pacific**, shows that **UK investors** stand out in several respects compared to their **international peers**:

They hold a **smaller proportion of their portfolios in cash** than the international average

....And a **larger share of their portfolios in equities**

They are the most **confident in making investment decisions without professional advice***.

They are among the least likely to report a low tolerance for financial risk



They are more likely to be **optimistic about stock market performance** over the next 12 months

They are the most likely to say they **plan to invest much more of their money** in the coming year.

They are the **most confident that their portfolios** will help them achieve long-term financial goals.

Source: Fidelity research conducted by Opinium, based on 13,000 investors meeting minimum income requirements in Europe and Asia (1,000 in the UK). Fieldwork was conducted 12th February to 11th March 2026. The minimum personal income requirement in the UK was £20,000 per annum.

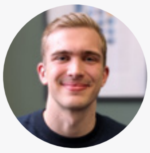
*** This question was only asked to European investors and not those in APAC.**

This suggests that the UK may not lack investment capability or confidence among those who participate, but rather suffers from low overall participation.

UK investors also demonstrate a strong awareness of inflation risk. They are more likely than their international peers to prioritise achieving returns that outpace cash savings, we found, highlighting a clear understanding of the long-term erosion of purchasing power.

Overall, the evidence points to a population that, once engaged, is financially capable, forward-looking, and comfortable with investment risk. However, this reflects the attitudes of existing investors – a relatively small share of the UK population – rather than the public as a whole.

Section 4: Once bitten, twice shy



Trevor Igasta
Behavioural Science Consultant at Cowry Consulting

The behavioural science perspective

Behavioural finance, a discipline researching investor psychology, offers useful insights into the dotcom bubble's lasting impact. During that time, investors treated certain stocks as "phantastic objects": exciting new technologies that seemed capable of magically transforming the entire economy. As these inventions were so new, their potential for profit seemed endless while their actual risks were almost impossible to see.

This led to a mental process called "splitting", where investors focused entirely on the thrill of the "big win" while pushing any doubts or fears deep into their subconscious. Essentially, they became lovestruck by the internet's potential and completely ignored whether these companies were actually making money. When the speculative bubble finally burst, this infatuation turned into deep-seated revulsion as previously suppressed risks surfaced as permanent, bitter losses.[6-7]

As markets are once again flooded with new technologies that promise to boost the economy in ways we don't fully understand, it makes sense that investors are comparing today's AI stocks to the dotcom bubble of the late 90s. This connection happens because of availability bias, where our brains more easily focus on vivid, emotional memories, like the pain of losing money. This feeling is intensified by loss aversion – the psychological fact that we feel the sting of a financial loss twice as strongly as the joy of a similar gain.

Because people are so afraid of repeating those past mistakes, seeing AI become the next "phantastic object" triggers a deep fear of being burned again. Consequently, some investors may choose to step away from the stock market entirely rather than risk another crash.[8-9]

But the return of "phantastic objects" does not mean we should all retreat to cash. With less impulsive management, long-term equity returns still tend to be more lucrative than cash.[10]

Academic evidence supports many practical strategies for navigating market volatility. First, adopting a rules-based approach to investing can reduce emotional decision-making. Setting clear, pre-defined rules for how to act in different scenarios makes it easier to avoid herding during market booms and panic during short-term market corrections.[11]

Second, building and maintaining a clear investment case for any asset provides structure and discipline. This can involve defining a reasoned rationale for each investment, writing down its key assumptions, and revisiting them periodically. For example, you may commit to selling an equity when 3 of your 10 bull case assumptions no longer hold. This also reduces the hold of spur-of-the-moment biases on decision-making.[12-13]

Lastly, checking a stock's price less often reduces emotional decision-making. Short-term noise encourages attempts to time the market and the worst days in the stock market are often followed by the best. Missing the best 10 days of returns can nearly halve a portfolio's gains, as shown by Fidelity's analysis of the FTSE 100 between 1992 and the end of February 2026. Active trading increases the risk of missing these days. Thus, developing a sound investment case and doing nothing for a while tends to, in the long-term, be one of the best strategies for avoiding bubbles and biases, and achieving meaningful returns.[14, 15, 16]

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Conclusion

The UK stands at an important inflection point. After a long period in which households largely disengaged from investment markets, there is now a renewed political and policy push to mobilise long-term capital and foster a stronger investment culture. The 'Invest for the Future' campaign creates a timely opportunity to reverse the post-dotcom retreat from equities and rebuild the UK's investment culture. Fidelity International supports this aim and believes it can deliver meaningful benefits for both individuals and the wider economy.

As we set out in our Be Invested report last year, this requires practical reform in three key areas

1. More balanced risk warnings	2. A national commitment to financial education	3. A policy environment that actively encourages long-term investing
Risk disclosures should clearly communicate both the risks and the long-term benefits of investing. Overly one-sided warnings risk deterring participation and reinforcing excessive cash savings behaviour. The progress of the Investment Association's Risk Warning Review group (of which Fidelity is part) is the first step on this path. It offers a framework for reform that maintains high standards of consumer protection while supporting confident participation in investment and saving. This should help to encourage better communication, better judgement and better outcomes for consumers, firms and the wider economy.	Financial education should be embedded across all life stages – from schools to workplaces to retirement planning. We support a coordinated national strategy that combines curriculum reform, employer engagement and clearer industry standards to build sustainable financial capability.	Government and regulators should ensure tax, product design, and communications consistently support long-term investment rather than unintentionally biasing households toward cash. We know from global research that simplicity, compelling tax incentives, and a lack of restrictions when it comes to asset allocation are critical in giving people the confidence to begin investing. Certainty is also important, which is why we support policies to help mitigate against the impact of speculation around the annual Budget. Finally, we would support policies that remove friction in moving from cash to investments, to help tackle inertia.

Important Information