

Social Enablement of Online Trading Platforms

By Sivaram V. Thangam, Swaminathan Natarajan and Venugopal Subbarao

Socially connected retail stock traders make better trading decisions

The impact of social media is pervasive. It has moved from the fringe to the mainstream. Social media accounts for 18% of time spent online [1]. A social user spends an average of 3.6 hours every day in online networking [2].

The nature of social media has captivated web users. By enabling users to create their own identity, connect with like-minded people, and gather and share information, social media has changed the dynamics of the online experience. Social features and tools enable users to interact with peers having similar interests and goals.

Empowering users to connect with each other on online retail trading platforms can transform the way trading decisions are made. Our paper focuses on enabling social features on online platforms for the retail stock and currency trading community. We also discuss the benefits of social trading.

SOCIAL TRADING AND ITS CURRENT STATE

Social trading helps an online trader rely on user generated content to make trading decisions.

Traditional trading platforms are transaction-based with little scope for collaboration. When social media was adopted by the masses, the web became a destination for traders and investors to share and learn from communities and special interest groups.

Social trading for the foreign exchange market (currency) is a recent phenomenon. There is increased adoption of social trading in the forex market. Social trading has become another avenue to analyze the forex market along with fundamentals and technicals. Tradeo [3], eToro [4] and Currensee [5] seized the first mover advantage. These social trading networks connect traders with brokers and offer an additional layer of social features and intelligence.

In the stock trading market, the investor community and brokerages are largely disjointed. However, there is some traction in the social media. HedgeChatter [6] analyzes social media conversations and provides social intelligence to the trading community. Stocktwits [7] facilitates sharing trading ideas within the global trading

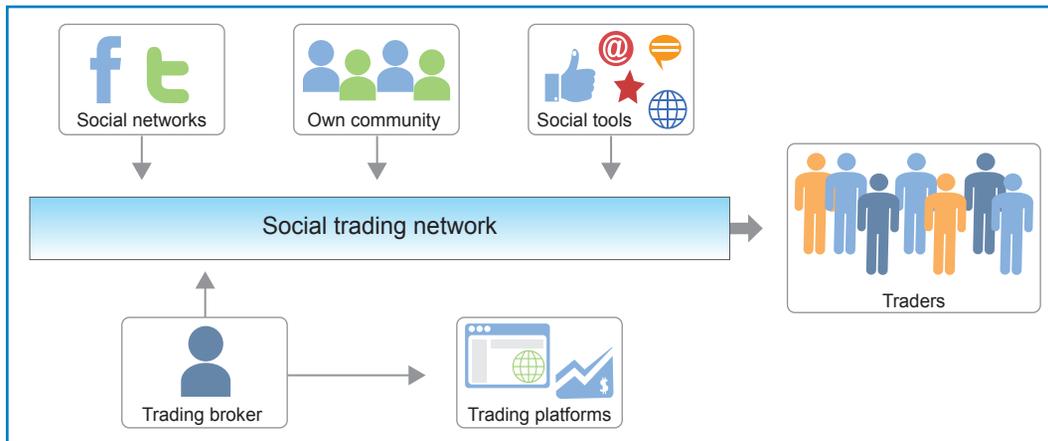


Figure 1: Social trading network interfacing traders with brokers and facilitating social trading.

Source: Infosys research

community. TradeKing [8] is one of the first stock trading brokerages to adopt some aspects of social trading.

GOING SOCIAL

At the heart of the social trading system are traders who collaborate socially, thereby tapping into the wisdom of the crowds. A social trading system can harness the collective wisdom at a macro level and derive intelligence for traders.

Stock trading systems are in the form of two models:

- Social trading networks facilitating social trade and interfacing traders with brokers
- Brokers facilitating social trading

A social trading network facilitates social trading by providing a forum for traders to connect, while enabling them to make trades

by interfacing with brokers (Figure 1). It offers mechanisms for traders to collaborate, gather and share trading ideas, copy trades, and follow portfolios of experts. Traders often access data from popular social networking sites such as Twitter and Facebook to derive trade intelligence. Tradeo [3] is a forex trading system that enables social collaboration among traders, provides intelligence and facilitates trade.

Broker facilitating social trading is another model in stock trading. The online broker enables social trading by offering tools to brokers (Figure 2). TradeKing [8] is a brokerage firm that provides traders with a networking forum.

SOCIAL TOOLS

Social tools facilitate social trading on a trading portal:

- Collaboration suite (forum, community, chat, commenting, Q&A) helps traders share messages and trade ideas.

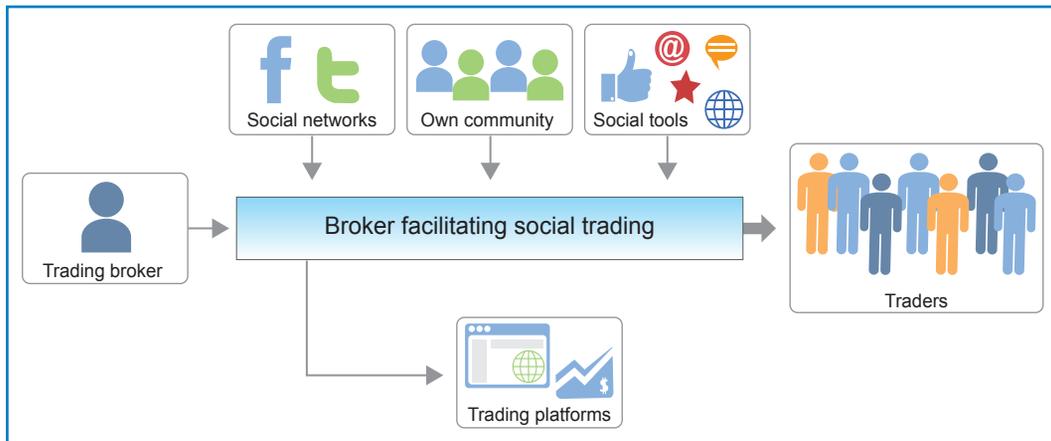


Figure 2: Brokerage system facilitating social trading

Source: Infosys research

- Networking features (follow, friend) connect trading gurus/ peers.
- Copy/ mirror trading automatically copies the trade of top traders in the community and executes on behalf of the trader.
- Trading feed with updates on trades is executed across the system and from the trader's own network.
- Traders are ranked based on their performance in trades. Performance can be calculated based on the percentage success in the trade.
- Trader profiling allows traders to showcase their trades, trading ideas, opinions, success ratio, etc.
- Deriving trading intelligence from the wisdom of the crowds makes it available to all traders.

BENEFITS FOR TRADERS

Social trading realizes several benefits for traders:

- Social collaboration: Traders can share trading ideas/ strategies, understand different trading styles and learn from each other's mistakes, while connecting with fellow traders.
- Build profile: Traders can establish their reputation in the trading community by sharing trading clues, showcasing their performance on trading calls and creating a network of followers.
- Follow best trader's trade: Traders can get lessons in trading from top traders by following their trading feeds.
- Copy/ mirror trading: Traders can copy the trading portfolio of professionals to improve their profitability and minimize risk.

- Create communities: Traders can create or join social communities to share and glean trade information.
- Collect feedback on trading ideas: Traders can receive the collective input of the community on their trading ideas before the trade.
- Reduce risk: Traders can make informed trading decisions and reduce financial risk with social tools.

BENEFITS OF SOCIAL TRADING (FINANCIAL/ CURRENCY)

- Tap into the wisdom of the crowds: In social trading, information flows from multiple traders. Algorithms can mine data and derive trading intelligence. One good example is gauging the mood of the market. Analyzing conversations of trading participants reveals the sentiment of traders. Social media sentiment can be used to identify trading signals. Trade information of retail traders helps predict the movement of prices.
- New trading tool: The investment community relies on fundamentals and technicals. Now, traders have a new tool - social trading - to make informed decisions.
- Increased participation in the market: Access to trading information and trader conversations in the public domain allows a novice trader to learn and avoid risks. It ensures increased participation of traders in the market.

- Customer stickiness in online trading portals: Social features attract users to portals. Social collaboration, personalization and increased access to information ensure that traders spend more time on online trading portals.

CHALLENGES

- Adoption by market regulators: Traditionally, the financial sector is a slow mover in adopting technology. Regulators are wary about the misuse of the system and spreading of false information to manipulate price movement. As social media technology matures and acceptance increases, the skepticism will wane.
- Changes in IT systems for intermediaries: Intermediaries are cautious about the introduction of new features and revamping of systems that incur a huge investment.
- Adoption by traders: Informed traders will be early adopters to realize benefits of social trading. Nevertheless, conservative traders will evaluate ROI before investing in a new system.
- Quality of data: In a social context, anyone can voice their opinion. Spreading false information can dilute the efficacy of social trading. Besides, a trader's opinion on Wall Street may not be relevant in the context of the Indian stock market. Filtering noise is a challenge in using social data.

DERIVING SOCIAL INTELLIGENCE

- Social retail trading opens up trading information through the exchange of messages and trading ideas among traders. Popular social media channels such as Twitter and Facebook host a huge volume of conversations on financial trades. Aggregating data available in the public domain and mining it through robust algorithms which extract actionable intelligence will be useful to traders.
- Predicting stock price movement: Research has revealed that there is a correlation between sentiment on tweets and movement of the stock index [9]. Emotions affect decision-making capabilities of individuals and the system at large. Social sentiment is a lead indicator of stock indices. Another source of information for predicting price movement is ideas shared by traders. Information on trades executed will also influence the direction of price movement. Amalgamation of data can yield clues on the direction of the index. Finally, making sense of data generated from disparate systems by users from multiple locations requires filtering the noise, correlating data, and analyzing data with data mining algorithms in a high throughput environment to derive meaningful insights.

CONCLUSION

Convergence of social enabling and trading markets (financial/ currency) has business potential. The currency market has adopted social trading with research indicating an improved performance in trade. Social trading will gain increasing acceptance when traders realize its benefits.

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Author's Profile

SIVARAM V. THANGAM is a Technology Manager at Infosys Labs. He can be reached at sivaram_thangam@infosys.com.

SWAMINATHAN NATARAJAN is a Principal Product Architect at Infosys Labs. He can be reached at swaminathan_n05@infosys.com.

VENUGOPAL SUBBARAO is a Senior Product Manager with Infosys Labs. He can be reached at venugopal_subbarao@infosys.com.

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