POLITICAL ROLE OF MARKET DESIGN – FROM THE ASPECT OF “SOCIAL TRADING” IN TECHNOLOGICAL REVOLUTION ERA

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ABSTRACT

This is a review study about the financial market and a new investment method, called “Social trading”. Related to its political role in the national market design, financial market, which is a component of the economy, cannot stay out of this circle by the mutual influence and intimate link with the State and other political matters. In the current era of technology expansion, the effective connection between technology and politics-market control has introduced a new investment strategy, called Social Trading. By reviewing from the viewpoints of both academic researchers and real-market traders, the study reveals the benefits of this investment method to a vast of investors, who have less experience, knowledge but are still able to join the market with better decision making and safer capital spending. This article also discusses the characteristics of this investment method and its comparison to other traditional activities in the market, to point out the obvious potential of this trading style.

KEYWORDS
Political
Market design
Social trading
Finance
Technology

CHÍNH TRỊ TRỌNG THIẾT KẾ THỊ TRƯỞNG - TỪ KHÁ CẢNH ĐÀU TƯ “GIAO DỊCH XÃ HỘI” TRONG KÌ NGUYÈN CÁCH MẠNG CÔNG NGHỆ

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Đây là một nghiên cứu tổng quan về thị trường tài chính và một phương pháp đầu tư mới, “Giao dịch xã hội”. Liên quan tới vai trò của yếu tố chính trị trong thiết kế thị trường của một quốc gia, thị trường tài chính, như một phần của nền kinh tế, cũng không nằm ngoài vòng nan y có những yếu tố ảnh hưởng và liên kết mật thiết với Nhà nước và các yếu tố chính trị khác. Trong khi nguyên công nghệ phát triển hiện nay, sự kết nối hình thức giữa yếu tố công nghệ và yếu tố chính trị - quản lý thị trường đã đưa ra một chiều lược đầu tư mới, được gọi là Social Trading (Giao dịch xã hội). Xem xét tổng quát từ góc nhìn của cả nhà nghiên cứu học thuật và nhà giao dịch trên thị trường thực, nghiên cứu cho thấy lợi ích của phương pháp đầu tư này đối với rất nhiều nhà đầu tư, những người có ít kinh nghiệm, kiến thức học hỏi nhưng vẫn có thể tham gia thị trường với những quyết định đầu tư von tốt và an toàn hơn. Bài viết cũng thảo luận về đặc điểm của phương pháp đầu tư này và so sánh nó với các hoạt động truyền thống khác trên thị trường để chỉ ra tiềm năng rộng rãi của phong cách giao dịch này.

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1. Introduction

On his ten precepts for social study in finance, MacKenzie [1] gives the concern with the political and social dynamics of market action, “market design is a political matter”. Market design is political, that is a sociological view that we cannot deny [2], whatever the kind of market, from commodity to labor. Since the human formed their society, they also learned to design the market, may be even before the invention of agriculture [3]. With the play of politics in our society, people bring a lot of politics involved in the action of market. In fact, MacKenzie’s idea about political matter mostly focuses on “the instruments that are part of the market’s underlying materiality” [4] or the “techno-politics” in trading [5]. While the other issues such as stage and market relation, the constructed regulation were not discussed in very detail. However, they are all politics of markets, which are the major considerations when talking about current economic crisis as well as the expansion of new trading style in modern financial market.

Nowadays, it has been recognized that the state plays a decisive role in the development process, a national market cannot be operated wealthily without a stable legal and regulatory framework, which is only created by the government. While with the general trend, it can be seen that no society is left to the state and the market to govern the socio-economic life. The question is not whether the state or the market plays a dominant role, because each has its own role. However, in fact, there have been many cases and scenario showing that both the state and the market may fail in cooperating if we separate them [6]. Thus, it brings the appearance of the "third hand" - the society, the social organizations, market institutions or economic agents. With a significant role, they ensure the balance of relations between the State and the market [2].

The role of social organizations and other market agents, according to the process of their participation, can be generalized as follows: Participation in providing public services, supporting the poor and minority group in society; enforce State policies, advocate, connect and locate social criticism and improvement, etc. On the other word, building an economical market, improving the role of the State and promoting the role of society are activities that have to take place simultaneously, as a premise for each other with a close relationship.

Financial market cannot stay out of this circle by the mutual influence and intimate link with the State and other political matters. The book of MacKenzie [1] points out “politics of market design” in the social finance study with an effective connection between technology and politics. Technology expansion is creating a rapid development of stock and securities trading, the dominant capital mobilization channel in financial market today. Meanwhile, market is restructured day by day as of the influence from State and society, pushes the necessity of evolution process of structural optimization, functional perfection and efficiency improvement in stock market never ever been as before [7]. The Fintech appears as a game changing for the common practice of traditional financial markets, in which the social trading was shown as a kind of trading forms with evolution related to the efficient improvement and investment.

In the past few years, the explosive development of technology is gradually attracting a lot of Vietnamese investors to invest in the securities market as a main source of income. Many people invest in financial markets such as stocks, bonds, Forex, derivative securities and today hot trend of cryptocurrencies with an expect of good return. However, these investments require a lot of knowledge and experience, very less expect for luck to win. Many investors lose money because of lack of understanding the market trends, no capability to analysis the financial report or read the charts, or even have little time to update the business news or events. The growth of social trading may be the answer to overcome these problems, at least give a hand to help investors have better decision of what, when and where to invest [8], [9]. By reviewing the opinions from both side of academic studies to trader' analysis in real market, comparing with the features of traditional financial market, this study aims to point out the potential of Social trading method, a Fintech innovation in technological expansion era.
2. Social trading as a new generation investment solution

So, what is social trading? Basically, social trading or social investing is one of the new generation investment solutions born with Web 2.0 technology [10]. It allows people to automatically copy transactions made by one or more professional investors in a network, such like a social network. From there, they can repeat the results of other peers or expert traders, even if they don not have much knowledge and time to enter the financial market. On the other word, if Facebook is a place where people share news and pictures of themselves with others, then the social investment network works the same way, but people share their trading orders instead of the news, a social network for investors.

From the state perspectives, a grow technology investment channel may go with both benefit and challenge. For the benefit, it is clear that people now have more choice for investment and earning money. The gain from investment may contribute to the development of the national economics and the improvement of people’s earning and living standard. With its transparency characteristic, social trading may strengthen the safety of trading and restrict these bad agents such as transactions frauds or property appropriation; thus, encourage a healthy investment environment and effective market.

However, from another side, government or regulators have to face with the new matter of customer protection and financial services regulation. As the space in an online network has no border, it is not an easy challenge to deal with. For example, tax of capital gain from trading is more complicate to calculate. It may contain different understanding and accept from the law and regulation of different nation, according to the fee collection, platform design or network operating, etc.

Social trading was originally born and developed primarily for the Forex market trading with the use of the MetaTrader platform. Until now, social trading in Forex is still the most widely used, but some social exchanges (such as eToro [8]) have pioneered the development of other products such as stocks, indices, commodity, currency, etc, to create more investment options for everyone. The network is working as a complex adaptive system to enhance trading performance [11], which for sure beneficial for all market agents, such as trader, broker or issuer.

In social trading, traders who copy are often called Followers, while experienced investors who are being copied are called Leaders. Participating in social trading, follower investors can directly copy the orders of the leader, and at the same time, they can interact, exchange information and receive the latest updates from their leader. It benefits all three parties: followers, leaders and social exchanges. With Followers, they can earn profits from copying without spending much time and effort as well as no in-depth knowledge of the market. With the Leaders, instead of dealing with their own capital, they make more profit from sharing their knowledge and experience and receive a commission from the followers who are copying their movements. While social trading networks enjoy more members entering the market, results more orders than the traditional trading way. Issuers have chance to attract more investors while broker may look for more service users.

Meanwhile, lack of controlling with misleading information may be a problem for traders. Traders join social trading because of the benefit from the trade decision sharing of other experts in market. Many people are easy to believe and follow other’s advice without doing any research. In fact, trading list with high visibility on the platform website or the traders who active communicate with other investors in public will attract more followers [12].

However, not every time the advice of so-called professional is true or without any specific purpose. What happen if their advice is fake or they are trying to create an abnormal trend in the market for some individual profit or market manipulation. Traders may lose money while issuer may possibly fail to protect their stock value. In this case, both market and state have to be careful with these costly and deceptive sharing in market.
Another concern need to be considered is about the privacy and information of traders as well as the security of trading platform. The main purpose of social trading is to share and learn the trading decision of each other. It is quite safe from the view of making investment order. However, working on a technology-based, no one can guarantee for a perfect safety system, even with modern blockchain technique. There is still existence of vulnerability in online social trading platform, related to cybersecurity concerns across mobile, desktop, and the web. Especially for those kind of social network, the information and trading preference of users may be collected by other parties, which put them in risk of fraud or insecurity trade.

In short, the expansion of social trading brings many benefits for market development by creating more convenience for trader, providing more source of investment for securities’ issuer and bringing more potential customers for broker. However, a coin has two faces, it also contains risk of loses which require all market agents carefully judge in any trading decision.

3. Compare social ties in social trading with those in other market activities

Social trading is the new trend of investment and becomes more common in financial market, especially with the introduction and expansion of the modern Fintech investments such as Forex or cryptocurrencies in the past few years. It provides traders and other parties in the market a variety of benefits and convenience. However, whatever how innovative it is, there are still economical and social aspects that it has to follow. Thus, to secure the profit and minimize the risk of losing money, it is necessary to understand about the similarities and differences of social ties in social trading compared to other traditional business strategies.

3.1. Similarities

Like the characteristics of a social network, social trading structures the relationship that links traders or group of traders together. In other words, it is social connections (ties) between the actors such as trader, broker, authority (government), technician and trading platforms. Depending on the relationships, the fame of actors and range in quality, the ties performs from weak to strong. However, it is similar in all kind of trading strategies, investors search, spread and exchange the information that they believe it is beneficial for them. The more diversity of an individual connection, the more development of community’s wealth [13]. While the social position of broker may enhance the trading performance in the network. Wherever traders invest money in their own decision or buy stock via broker or trading platform, they all have to look for different sources of information to strengthen their confidence, or simply to avoid the information asymmetry [14].

From the view of market authorities, the flexibility and openness of social trading are undeniable, but still it must work under the management of regulators or government like the other business activities. Of course, managing an online activity is never easy, the interaction between users and authorities should be maintained [15] in different range. Furthermore, the regulators and other authorities may play an important part in encouraging the transparency performance of the network [16].

Another important aspect need to describe is the contribution of technician and trading platform. Identical to other financial investment today, transactions are often launched online, using technology based platforms. It requires the users to maintain the connection with technician as well as a certain level of understanding about social trading platform, in order to protect their right and privacy, while still maximize the effective function of financial trade [17].

It is clear about the similarities, however the attractive of social trading comes from its difference to other financial activities. Based on its unique and special characteristics, the part follows will reveal these differences.
3.2. Differences

First of all, social trading perform better transparency, results in stronger social ties among traders within the network. With the conventional type of trust, traders (investors) often have no baseline to choose for partner other than the advertisements. All services say that their method of investment is safe and effective. These ads sometimes make investors wonder, "If this company is so good, why don't they invest themselves to make money but to open a service?" Meanwhile, in social trading, transparency is one of the top priorities [18]. From the view of follower (trader), the leader's entire trading history will be published for other investors to investigate and choose. Investment returns, risk level, investment portfolio, trading strategy, etc. Even detailed information about each order at the same time and detailed results will be published for peer review. Some people may be skeptical of these results, but surely, they will quickly accept after only a few days of copying the trade order, when they see the leader's published results completely coincide with the orders that have been opened on their own account. In addition, the transparency may result in higher effectiveness in trading decision. In fact, many investors suffer losses when participating in the financial market; it is even greater proportion for new and inexperienced investors. There are many skills and techniques that investors need to learn to become a professional trader. With social trading, all their need is to choose reputable and successful leaders. The platforms help reducing the information asymmetries problem between each trader [19]. However, it is still possible that followers may follow the wrong leader and suffer losses rather than expected earning, that is an obvious risk in social trading [20]. Vice versa, the attention of the peers may also encourage the risk incentive taking of leader/trader [21], [22] by placing the order relied on the followers' interest, not by the market trend analysis, a case that investors should be careful for the accuracy of their investment orders.

The second difference is from the control ability of users, that making the relationship between traders and other actors in network (such as broker, leader, etc.) more security. If investing in a traditional trust investment, investors have to provide your money (or trading account) to another brokers which sometimes causes them out of control for the risk. While, the social trading allows followers always have full control over anything that are going on with their invested money, even if they trade by their own decision or follow other traders' movement. Most trading networks systems allow members to have full access to the history, intervene on each order and even interrupt the copy feature at any time if they feel unsafe. At the same time, the money in account will always belongs to investors, traders do not need to transfer their money to anyone else. Thus, they have less worry about losing money or having their account exposed.

Thirdly, it is a kind of “happier” relationship between network users and service providers. Thanks to the application of modern technology, social trading offers a far more affordable fee than traditional solutions. Investment deposit services can cost investors a partial of the profits and sometimes there are some types of fees like the "property or portfolio management" fee. As a result, after a year, the investment is not making much but only trusted or broker service is gaining day by day. As for the social trading solution, traders will incur a very small additional cost, and even completely free in terms of copying. Because the exchanges have earned their commissions when the copy orders are executed, thus they do not need to charge additional copy fees or ask you to share the profits. In addition, some social trading networks do not require users to open the computer to run platform continuously, which prevents us from having to invest an initial amount or remain a complex equipment. It is really different with those working on traditional investment style when they have to face with the chart on screen and run the analysis every time to catch up the market movement.

However, it does not mean the ties between traders and other actors in the network are less complex than other business activities. The fourth difference can be described as the requirement of close ties between the users and the trading platform as well as other technology related
aspect. At all, it is still a kind of trading and no investment is free of risk. Traders should clear that copy trading also contains a certain level of risk. Using technology background, even with effectiveness and convenience in terms of transparency and scrutiny for traders, it still requires user to learn carefully about the function and operative of network. If you want to earn money, you have to know what you are doing. It is very dangerous if users miss or do not know how the platform works. For instance, a misunderstanding in the number of trade lot when copying others order may lead to an unwilling results if the investment fails to move with the expected direction. Thus, it is very important to learn how to use the platform, study basic thoroughly and practice with a dummy account first may be good ideas for new traders [23]. Lazy to study further in investment, not strengthen the connection with technology improvement, enjoy instant gain and keep copying without any worry of lose, they are the problems that may lead followers completely off-guard when their leaders suddenly fail to predict the market trend and start losing in their order. As result, followers will suffer from unexpected loss.

Finally, strong trade requires good relationship with policymakers [24]. It remains the concern about the contribution of regulators and other authorities in management the social network. In an open place likes worldwide web, social trading may challenge government in case of regulation applied. Social trading users can provide observer their history and success percentage but it is not easy to learn about their wrong and recognize the existing problems in their investment strategy all the time, because of no true system of accountability and lack of trust. Thus, a stronger tie between business and government are necessary to secure the wealthy and efficient of market. In the other word, the importance of politics in market design is undeniable.

4. Conclusion

In conclusion, politics in market design is well recognized by economists. Market and political matter (the State and other social institution) are hard to separate. The idea of MacKenzie in his book about material that formed the market has enriched the understanding bout this connection by describing the contribution of “technicalities” to market design, related to the political concern. Technology revolution creates the chance of development as well as challenge for the improvement of market and the control of state. Social trading is a good example of the techno contribution to modern trading style.

Using the web-based platform which connect to the other traditional investment solutions, social trading provides a friendly and easy approach method for everyone to join the market. Any people, whoever has or does not have knowledge or experience in investment, now is allowed to enter the financial market via the social trading network. Of course, there are still the rules that social trading has to follow, identical to other business activities. At the same time, it remains drawback that requires traders be smart and careful in their investment decision to avoid losing their money. However, the potential of this trading style is clear to see.

From the point of view of an academic researcher, we encourage other scholars to expand the study related to social trading by different methodology in different trading markets, especially for the emerging economy likes Vietnam. We believe, sooner or later, it will become a popular trading practice in our financial market, which may attract the concern of investors, market controllers as well as other authorities.

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