International Journal of Financial Management and Economics

**P-ISSN:** 2617-9210
**E-ISSN:** 2617-9229
IJFME 2024; 7(2): 653-657
www.theeconomicsjournal.com
Received: 24-07-2024
Accepted: 30-08-2024

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# Impact of online trading tips and social media hype on retail investor losses in future & options (F&O) markets

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**DOI:** https://doi.org/10.33545/26179210.2024.v7.i2.433

**Abstract**
This research explores the influence of online trading tips and social media hype on retail investor losses in Futures & Options (F&O) markets. As digital platforms and social media become integral to modern trading, retail investors are increasingly relying on these sources for market insights and investment strategies. However, the speculative nature of social media-driven trends and the complexities of F&O markets pose significant risks, particularly for inexperienced traders. The study investigates how online recommendations and hype affect trading behavior, decision-making, and ultimately lead to financial losses among retail investors. Through an analysis of social media platforms, trading communities, and case studies, this research aims to quantify the impact of these factors on trading outcomes. The findings underscore the need for improved investor education and regulatory oversight to protect retail traders from the adverse effects of misinformation and speculative trading behavior in volatile markets.

**Keywords:** Retail investors, online trading, social media hype, futures and options (F&O), financial losses, investor behavior, trading strategies, market trends

## Introduction
The rapid evolution of technology and widespread access to the internet have transformed the financial markets, particularly for retail investors. Online trading platforms, coupled with the rise of social media, have democratized access to complex financial instruments such as Futures and Options (F&O), which were once primarily used by institutional investors. However, this accessibility has come with significant risks, especially for retail investors drawn in by online trading tips and social media hype. The Securities and Exchange Board of India (SEBI) recently reported that 93% of retail investors in F&O markets suffered losses, a staggering statistic that highlights the inherent volatility and complexity of these instruments. Retail traders, often inexperienced and influenced by online trading gurus, social media influencers, and trading forums, find themselves engaging in speculative activities without fully understanding the risks involved.

This phenomenon has raised concerns about the role of online platforms in shaping retail investor behavior, as well as the potential for significant financial harm. The proliferation of trading tips and market predictions on social media creates an environment where emotions often override rational decision-making, leading to poor trading choices and considerable losses. In this context, this study examines the impact of online trading tips and social media-driven market hype on retail investor losses in the F&O markets. It seeks to explore how the digital trading ecosystem, characterized by easy access to information and trading platforms, may contribute to the financial vulnerability of retail traders.

## Need for the Study
The increasing participation of retail investors in the Futures and Options (F&O) markets necessitates a thorough investigation into the factors that influence their trading behaviourism. As technology and online trading platforms make it easier for individuals to engage with complex financial instruments, many lack the knowledge required to navigate these markets effectively.

The prevalence of information misinformation through social media heightens the risk of poor trading decisions, often driven by hype rather than sound analysis. This underscores the importance of understanding the impact of online trading tips and social media dynamics on investor behaviour. Furthermore, with many retail investors facing significant losses, there is a critical need for enhanced financial education tailored specifically to this demographic. By shedding light on how social media influences trading decisions, the study can contribute valuable insights that inform educational initiatives aimed at promoting informed trading practices. Additionally, understanding the behavioural patterns of retail investors can help develop tools and resources that mitigate risks associated with speculative trading. The findings may also have implications for regulators and policymakers, highlighting the need for appropriate regulations governing social media influencers and online trading advice. As the landscape of trading continues to evolve, this study can help adapt strategies to foster responsible trading practices in an increasingly digital environment. Ultimately, addressing these needs is essential for creating a more informed, stable, and equitable trading environment that protects retail investors and promotes market integrity.

**Review of Literature**

Peiran Jiao, Andre Veiga, A. Walther (2018) [10] We contrast the impact of traditional news media and social media coverage on stock market volatility and trading volume. We develop a theoretical model of asset pricing and information processing, which allows for both rational traders and a variety of commonly studied behavioral biases. The model yields several novel and testable predictions about the impact of news and social media on asset prices

Shweta Agarwal, Shailendra Kumar, U. Goel (2019) [2] This exploratory work reviews the research work undertaken to study the impact of the information content of the Internet, available through online news articles and various social media platforms, over the retail investors' trading patterns and the stock market as a whole. The research articles considered have been published between 1992 and 2017, and classified on the basis of year of publication, countries in the sample, publication source and the focus area of the work.

Lorenzo Bizzi, Alice Labban (2019) [7] While we understand well how social media channels sway consumers, there is little understanding of their influence on online trading behavior. We argue that social media are creating a new class of self-directed online traders by simultaneously encouraging and biasing trading decisions. Through an empirical study, we show that heavy social media users are more likely to engage in online trading but are largely affected by online herding behavior, and are four times more likely to blindly follow other traders.

Shimon Kogan, T. Moskowitz, M. (2021) [4] We examine an undercover SEC investigation into the manipulation of financial news on social media. While fraudulent news had a direct positive impact on retail trading and prices, revelation of the fraud by the SEC announcement resulted in significantly lower retail trading volume on all news, including legitimate news, on these platforms. For small firms, volume declined by 23.5% and price volatility dropped by 1.3%.

Danqi Hu, C. Jones, Valerie Zhang (2021) [5] Using data from social media platform Reddit from 2020 and 2021, we examine how stock prices, retail trading and short-selling are inter-connected with social media activity. More Reddit traffic, more positive tones, more disagreement and higher connectedness at Reddit lead to higher returns, higher retail order flow, and lower shorting flows on the next trading day. The information content of the social activity variables is different from that of retail order flows and shorting flows, and they are each a significant predictor for future returns. Interestingly, when there is higher traffic, more positive tone, more disagreement and higher connectedness on Reddit, the shorting flows become even more informative and predict even lower future returns.

J. Mohr (2021) [6] This paper examines the relationship between social media and retail trading activity. Using days on which social media platform connectivity is exogenously interrupted, creating a natural experiment, I measure the impact on retail trading behavior in TAQ retail identified trades and a novel dataset of aggregate positions in Robinhood. These ”outage” days are associated with a 2.5% increase in retail trading volume and concentrated mostly in retail traders selling stocks and closing positions.

T. Teplova, A. Tomtosov, Tatiana S. Sokolova (2022) [1] In this study, using AI, we empirically examine the irrational behaviour, specifically attention-driven trading and emotion-driven trading such as consensus trading, of retail investors in an emerging stock market. We used a neural network to assess the tone of messages on social media platforms and proposed a novel Hype indicator that integrates metrics of investor attention and sentiment.

Wenwen Liu, Jinyu Yang, Jingrui Chen (2023) [3] Using 34 products from China's commodity futures market, this study examines the impact of social network attention and sentiment on its futures market returns. A machine learning text analysis algorithm was used to construct social network investor sentiment in consultation with three search volume indices. We find that: social network sentiment is a good predictor of commodity futures returns, investor attention has a significant positive impact on returns and absolute returns, and the Baidu index is better at forecasting returns than the Sogou and 360 indices

Semra Bank, Zehra Abdioğlu (2023) [9] Purpose-Recently, it has been observed that social trading and social media-based stocks are very popular especially for retail investors in the financial world. However, coordinated transactions of retail investors through social platforms carry the risk of classical noise trading, and the noise-based transactions of these investors, described as irrational investors, constitute a new source of systematic risk in the market. Considering the mentioned issues, this study aims to reveal the volatility and asymmetric volatility effects of social media-based noise trading of retail investors through the recent GameStop short squeeze.

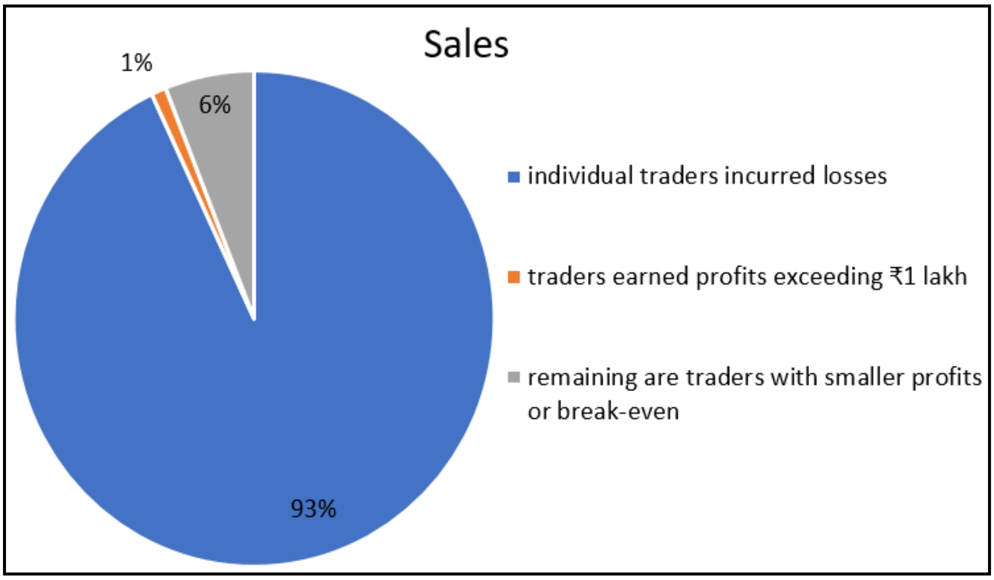
**Research Methodology**

1. **Data Source:** This analysis uses secondary data from the SEBI report covering individual and proprietary traders in the Futures and Options (F&O) market over three fiscal years (FY22-FY24).
2. **Data Analysis Method:** We will employ descriptive statistics and visualizations to illustrate key findings, such as high loss rates among individual traders, profit distribution disparities, transaction costs, and demographic trends. Each category will be illustrated

with pie charts or other relevant visualizations.

3. **Purpose of Analysis:** To highlight disparities in Loss Rates among Individual Traders, profit and loss distribution between different trader classes.
4. **Limitation:** The study's reliance on secondary data introduces certain limitations, as it may lack detailed insights into individual traders' behaviour, specific motivations, and trading strategies. This constraint can affect the depth of analysis on factors influencing individual decision-making and risk tolerance.

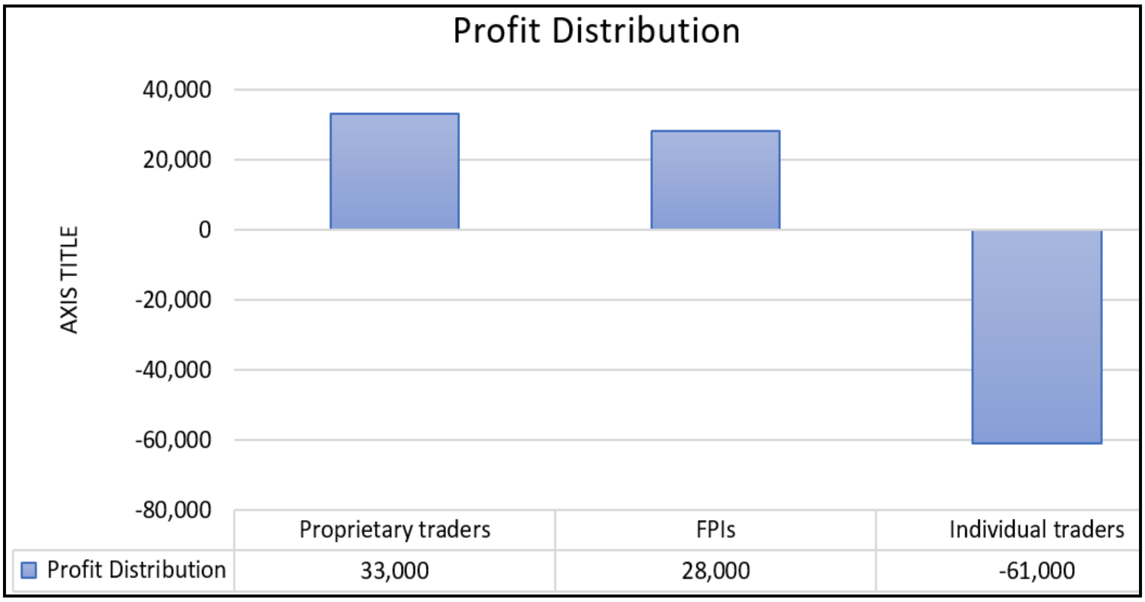
**Data Analysis**




Loss Rates among Individual Traders

**Details**

- **93%** of individual traders incurred losses.
- **1%** of traders earned profits exceeding ₹1 lakh.
- The remaining 6% are traders with smaller profits or break-even




Profit Distribution among Proprietary Traders, FPIs, and Individuals

**Details**

- **Proprietary traders**: ₹ 33,000 crore profits.
- **FPIs**: ₹ 28,000 crore profits.
- **Individual traders**: ₹-61,000 crore losses

**Data Interpretation**

**High Loss Rates among Individual Traders**

A significant majority (93%) of individual traders faced losses averaging ₹2 lakh per person. This highlights potential knowledge or skill gaps among these traders or the difficulty of profiting in this market without advanced tools.

**Profit Distribution Among Proprietary Traders and FPIs**

Proprietary traders and FPIs achieved substantial profits, contrasting sharply with individual trader losses. The profitability of these groups may correlate with the extensive use of algorithmic trading, as indicated by 97% of FPI profits and 96% of proprietary profits being algorithm-driven.

**Objective**

- To analyse the impact of online trading tips and social media hype on retail investor decision-making in Futures and Options (F&O) markets.
- To assess the relationship between social media influence and the frequency of trading losses among retail investors.
- To identify key behavioural patterns and psychological factors that drive retail investor engagement with online trading platforms and social media content.

**Scope of the Study**

The scope of this study encompasses an exploration of retail investor behaviour in the Futures and Options (F&O) markets, focusing specifically on the influence of online trading tips and social media platforms. It will examine various social media channels, such as Twitter, Facebook, and trading forums, to assess how they shape investor sentiment and decision-making processes. Additionally, the study will analyse the implications of this influence on trading outcomes, including the frequency and magnitude of financial losses among retail investors.

**Conclusion**

This research highlights the significant impact that online trading tips and social media hype have on retail investor losses in the Futures & Options (F&O) markets. As retail investors increasingly rely on digital platforms for guidance, they often encounter speculative advice that is not grounded in sound financial analysis. The allure of quick profits, driven by social media influencers and viral trading trends, can lead to impulsive decision-making and a lack of understanding of the inherent risks in F&O trading. The findings reveal that retail investors, particularly those with limited experience, are more vulnerable to losses due to the complex nature of F&O markets and the high levels of leverage involved. Additionally, the ease of access to online trading platforms, coupled with the pressure to follow trending trades, exacerbates the risk of substantial financial setbacks. To mitigate these risks, the study underscores the importance of enhanced investor education, better awareness of market risks, and the need for regulatory frameworks to monitor and manage the spread of potentially harmful financial advice on social media. By addressing these challenges, the market can better protect retail investors and foster a more sustainable trading environment.

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