Getting in sync with IM proves profitable for investors

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(PhysOrg.com) -- New research suggests that stock market day traders are more successful when they get in sync with their colleagues via IM, than are those who do not. This phenomenon, known as syncing, has long been known to exist in the wild kingdom; birds take flight together to avoid being singled out; cicadas chirp together for the same reason. But, until now, there was little concrete evidence to support the notion that syncing existed in people, though there has been some anecdotal evidence. Several years back, it was pointed out, for example, that averaging a crowd’s estimates to guess how many jawbreakers were in a jar, was far more reliable than picking just any one person to give it a try. And any musician can tell you that something just "happens" when players get in sync; something that doesn’t happen any other way.

The new research, published this week in the Proceedings of the National Academy of Sciences, focused on the means by which day traders communicated with one another, i.e. Instant Messaging (IM) and how it impacted their ability to make choices that proved profitable. Researcher Brian Uzzi, and his colleagues at Northwestern University in Evanston Illinois, analyzed IM's for over a year and a half from a group of 66 day traders from a single firm, and then looked at their subsequent trading results, and then compared those results with the industry average. They found that there existed a sweet spot in the trading process whereby those who were in sync with one another, fared better than those who went it alone. Uzzi and his colleagues defined being in sync as a short window of time where those involved not only picked up the pace of messaging, but bounced ideas off one another and as they did so, appeared to come to a shared consensus about which stocks to buy or sell, all at the same time, through an individual process of deduction based on that shared data.

And that was the difference between syncing and the more common phenomenon whereby the herd senses something is up and rushes to get in on it before the clock runs out. With syncing, those individuals working together figure out at very nearly the same instant which is the best strategy and take action based on that; they're not waiting for everyone to agree on anything or for a leader to emerge. They all come to the same enlightened decision on their own, and then act on it, without waiting to see if anyone or everyone else will do the same.
In the study, Uzzi and his colleagues found that when syncing occurred, their profit rate jumped from the industry average of 55% to 60%, which in financial circles, is a pretty big deal.

Based on the research, it's clear that financial planners will be working hard in the near term to figure out how to cash in on this new finding; until then, though, investors will have to choose their investment firm wisely, in hopes that they are part of the team that achieves syncing on a regular basis.

More information: Synchronicity, instant messaging, and performance among financial traders, Serguei Saavedraa, Kathleen Hagerty, and Brian Uzzia, *Proceedings of the National Academy of Sciences*, Published online before print March 14, 2011, doi:10.1073/pnas.1018462108