Research shows gamified investment sites have risks for novice investors

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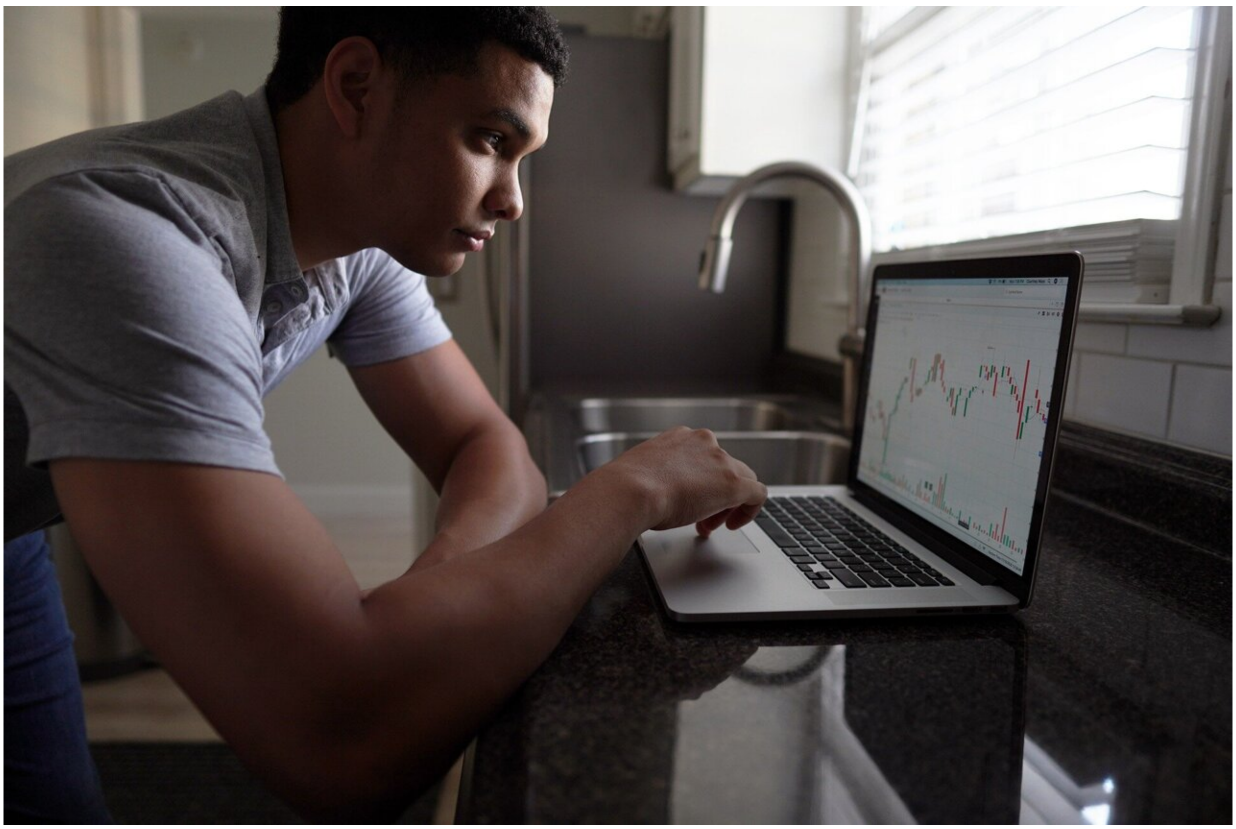

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What happens when online investment trading platforms start to resemble games that keep people playing for hours, with badges and exploding confetti to reward investors for their engagement?

For those who know what they're doing, it won't make much of a difference. New research from the University of Toronto engaging nearly 1,000 volunteers in artificial investment scenarios shows that more informational features such as price change notifications might even help savvy investors execute their strategy better.

Gamified investing didn't seem to lead to people making more mistakes or trading a whole lot more either—trading went up by a modest 5% with just under a third of that attributed to gamification.

It's a different story though for novices with limited knowledge. Using lab-built platforms—a no-frills one and another using a mix of rewards- and information-based features common on popular gamified trading sites such as Robinhood and EToro, the researchers found that these investors preferred the rewards-based environment. And this preference was associated with much more frequent trading—12.5% more than in the stripped-down trading version.

The gamified environment also seemed to reinforce ill-advised strategies, such as holding on to losing investments and selling high-performing ones. Investors favoring this kind of behavior were nearly 32% more likely to sell their asset after receiving a price increase alert and nearly 38% more likely to hold it after a price drop notification, compared to what they did without the alerts. Knowledgeable investors, however, did the opposite, and were nearly 36% more likely to buy an asset after receiving a price increase notification.

"Neutral" investment platforms are the ideal set-up for self-directed investors because their features do not influence the investor's decisions, said researcher Mariana Khapko, an assistant professor of finance at the University of Toronto Scarborough, cross-appointed to the University's Rotman School of Management. While the prevailing advice for amateurs is to buy indexed funds and then generally ignore them, gamified platforms nudge users towards more frequent trading, with monetary benefits to the platform.

"This is particularly worrisome if gamified platforms cater to young, inexperienced traders who are particularly susceptible to be influenced by 'fun trading,'" said Prof. Khapko, who collaborated on the research with Marius Zoican, an associate professor of finance at the Haskayne School of Business at the University of Calgary and Philipp Chapkovski, a postdoctoral researcher at the University of Bonn.

Regulators have paid extra attention to gamified trading platforms in recent years, concerned that they may negatively influence users' choices, sometimes leading to financially disastrous decisions. As a result, the U.S. Securities Commission Exchange released new rules in July 2023 aimed at eliminating potential conflicts of interest in the algorithms used in the gamified platforms.

Still, regulators need to be careful not to throttle technological innovation as they seek to preserve ethical integrity in the online trading space, said Prof. Khapko.

"I believe the most effective recommendation is to improve financial literacy across the board, which would reduce investors' susceptibility to behavioral nudges," she said.

The study appears in Management Science.

More information: Philipp Chapkovski et al, Trading Gamification and Investor Behavior, *Management Science* (2024). DOI: 10.1287/mnsc.2022.02650

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