**online investment platform: Benefits, risk and WAY FORWARD**

**HASSAN AMIR MUHAMMED**

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**A SEMINAR REPRESENTED TO THE DEPARTMENT OF COMPUTER SCIENCE, SCHOOL OF SCIENCE AND TECHNOLOGY, FEDERAL POLYTECHNIC MUBI, ADAMAWA STATE, NIGERIA**

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**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF NATIONAL DIPLOMA (ND) IN COMPUTER SCIENCE**

**AUGUST, 2023**

**Abstract**

*The Internet has changed the landscape contours of the financial services industry in ways never ever anticipated. The online approach of conducting commerce has gained more and more acceptance from consumers and suppliers alike. Online investment, when they first came into the scene, attacked mass markets with unbelievable ease, speed and success that it took conventional brokerages. In time, conventional investment having learnt the advantages of the Internet have moved to create an online presence for themselves. to reflect on these aspects before carrying out trades over the Internet.*

**Keywords:** Information technology, Online Investment, Trading, Platform.

**Introduction**

The internet has made it so that millions of people are making trading decisions for themselves. This approach is drastically different from the decade’s old approach of using a broker who typically can offer some advice. Regardless of how a person trades, there are going to be advantages and disadvantages to trading online. There are thousands of trading platforms online today. If you are new to all this and are not sure how trading actually works, you will probably need help with making the right trading decisions (Hill, 2014).

The COVID-19 pandemic has affected global economic growth, including Indonesia, in various sectors. This causes low investor sentiments towards the market due to the unclear supply chain which ultimately tends to lead the market to be in a negative direction (Easton & Coz, 2010). Thus, investors need available real-time information to make decisions in a short period (Goldberg, 2019). Digital practice by business people in Indonesia had existed for a long time before, but since the pandemic started, digital transformation in the business sector has become much more faster and optimal. Consequently, investors tend to invest their money using online investment platforms. Online investment platform has many compensations, such the rapidity in investing, more transparent information, and lower operating costs (Goldberg, 2019). Hence, it can provide benefits to investors in making quick and appropriate decisions. Meanwhile, from the company side, they can increase their cash flow investment. However, in a risk theory explains that benefits are often accompanied by risks. The temporal and spatial separation of customers and stockbroking firms as well as the unpredictable internet infrastructure generates implicit uncertainty around online transactions. These include monetary losses due to transaction errors or misuse of stock accounts, the risk of privacy loss due to fraud or hacker interference, and the uncertainty of online transactions (Goldberg, 2019).

Information from the Financial Services Authority (FSA) as the institution that oversees the financial services industry in Indonesia states that 868 online investment platforms do not have permissions and are not registered under FSA. This will have an impact on investors' security from fraud because many online investment platforms do not have permission (Frickle, 2000). This concern had also become one of the discussions at the G20 meeting that was held in Saudi Arabia on 22th and 23th of February in 2020 with the theme of "Realizing the Opportunity of the 21st Century", which is strengthening the financial regulations and supervision as well as the development of the domestic capital markets by implementing financial sector reforms and utilizing technology (Easton & Coz, 2012).

Smith (2015), explain that trust and risk are important elements in electronic transactions. Perceived trust and risk tend to be important factors in predicting investors' intentions to invest using online investment platforms, especially during the COVID-19 pandemic. This is due to the problems faced by individuals when using online platforms, such as insecure transactions, lack of insurance, password hacking, user privacy, technology intellectual infrastructure transmission delays, and other issues that affect the trust and the usage of online platforms (Balling et al., 2013).

**Literature Review**

A stock market, which is also known as an equity market, stands for a collective approach of buying and selling various instruments publicly and/or privately. Volatility, which is an aspect of the stock market, makes analysing the market behaviour a challenging task (Thakkar & Chaudhari, 2021, p. 1). Fundamental analysis involves the investigation of quantitative data such as stock price and volume, and qualitative information of those organizations like profiles and strategies. Technical analysis can support the prediction of future market behaviour by using stock features and the derived correlations (Goldberg, 2019).

The most popular approach is technical analysis, and technician analysts argue that all new information, such as news and macroeconomic variables, are already represented in stock prices. As such, it is sufficient in analysing price trend patterns to predict the stock market. In deciding when to buy or sell stocks, these technical indicators have been studied and applied. However, other studies have also shown that trading strategies based on technical indicators have limited results. While a wide range of information is applied, a more recent form that has proved helpful for stock forecasting is social network analysis.

Investment in the stock market had been viewed as very unpredictable over the years, especially considering how limited the availability of data and analytics were to people. However, as years have gone by, the gap has been reducing, and it has become easier for newcomers to understand it to an extent. Additionally, while there have been several studies looking into predicting the future prices of stocks, the stock market is not just dependent on historical data. It is difficult to accurately predict future events because of how it is affected by the sentiments of the people. Stock price prediction has developed into an essential issue that concerns both academia and business. However, achieving a model that can fulfil this is not easy. While there are several factors affecting stock prices, in today’s stock markets, future stock values are also strongly influenced by the feelings of stockholders. Moreover, the tremendous growth achieved by the internet and social networks allow for the sharing of user opinions about company shares while there are even social networks that are explicitly designed for stockholders which allow people to share and discuss their thoughts about the future of each stock (Donkers *et al*., 2017).

**Benefits & Risks of Using Trading Platform or Software**

**Lower Fees and Improved Flexibility Are Benefits of Using a Trading Platform**

A clear benefit of online trading is the drastic reduction of costs and fees when compared to trading using a brick-and-mortar firm. You can expect to pay between five and $10 when you buy and sell stocks and exchange-traded funds using online discount brokers. Trading stocks is time-sensitive. Online trading platforms allow one to execute trades almost instantly. Working with a brick-and-mortar broker requires setting up an appointment, be it on the phone or online, to initiate the trade. By the time this is done, the factors that might have encouraged you to make the trade may have changed (Donkers *et al*., 2017).

**Online Trading Platforms Help Avoid Broker Bias**

Broker bias happens when a broker gives their client financial advice based on what’s going to benefit them as a broker. The broker might help by getting a commission if they sell a specific mutual fund or other products. Seller bias is expected when you purchase a product. For example, if you want to buy a vehicle and you are looking to decide between a Toyota or a Ford, you know that when you walk into the Toyota dealership, they are going to try to sell you a Toyota. However, when you walk into an investment firm, you may not have that same awareness that these same types of biases exist. Brokerage firms have been cited for many biases to base abuses. Some function like supermarkets where they put the best “shelf space” aside for firms that pay the most for that privilege. It means that the investment vehicles they offer are not always what’s best for the client, but instead of what is best for them (Donkers et al., 2017).

**The Benefit of Monitoring Investments in Real-Time Online**

Using an online trading platform does not mean that you are necessarily using an inferior product. The truth is that many online trading companies give customers an impressive suite of tools that provide them with valuable information to help them make the most out of their trades. [Online trading sites](https://daytradingz.com/best-stock-research-websites/) offer stock quotes and trade information so that people can quickly see how their investments are doing in real-time (Donkers *et al.,* 2017).

For the past nine decades, the S&P 500 has had an average return of about 10 percent. Most investors are not even making this average return. The problem is that they are not able to effectively manage multiple investment accounts and lack the tools needed to monitor their investments in real-time. Online platforms allow you to know how your investments are performing right now. It will enable you to see what changes you need to make to improve your outcome.

**Using an Investment Platform May Lead to You Investing Too Much Money Too Fast**

All investments carry risk. However, because online trading is secure, all you need to do is click your mouse, and there is the risk of making emotional investments, making poor choices, or over investing. If you choose to use a trading platform, you can protect yourself by understanding the stocks you are purchasing and then setting up safeguards. For example, place a limit order on your account so you can control how much you are buying and what you buy. Inexperience is dangerous when using an investment platform. When you use an investment platform, you have no relationship with brokers. There is no one there giving you advice on how to create an investment strategy. For some people having this amount of autonomy when it comes to managing their own money is unnerving. New traders need to do their due diligence. Learn as much about the companies that you want to invest in before clicking the mouse (Donkers *et al.,* 2017).

**Using an Investment Platform Can Become Addictive**

Without having the proper perspective, one can go from investing to gambling. When something becomes addictive, a person loses their ability to control their actions even though they know that their actions can have negative consequences. Some traders using online platforms choose short-term strategies that involve risky stocks with the option to gain a ton of money or suffer significant losses. Structurally, investing, and gambling have a lot in common. They both require assessing risk capital versus risk-reward. They both are based on minimizing risk while maximizing reward. Investors have more ways to mitigate losses than gamblers do. Investors have sources of relevant information that they can turn to (Donkers *et al.,* 2017).

**The Unreliable Nature of Technology Affects Online Traders**

Online trading means that you can only trade if you have an internet connection. If the internet connection becomes slow, if it gets interrupted, or if there is some other technical glitch, you run the risk of losing out on a lucrative trade. Computer glitches have cost investors a ton of money. They may go through the [trading process](https://admiralmarkets.com/education/articles/forex-basics/forex-trading-for-beginners), and then there is a glitch. So, they assume that the trade was never made. They make the trade again and end up investing twice as much as they wanted to invest. The same thing can happen in reverse, assuming that a trade was made without getting proper confirmation that can cost trader money. When using online platforms for investing, you need to make sure that you know how to verify trades and review statements (Donkers et al., 2017).

Online trading platforms have helped many people get a firm grasp of their financial situation. They have helped them save for the future, have a clear picture of where their money sits, and have provided an easy to understand vehicle to allow people who otherwise would not invest to invest in themselves.

**The benefits enjoyed by an individual investor due to Online Investing:**

According to Barber and Odean (2020), the following are the benefits of online investing to an individual.

**Independence and freedom due to access to the markets:**

This is conceivably the greatest advantage of online brokerages. A novice investor with an Internet connection can know the real time stock quotes, historical stock price trends, have a handle on market events, access vast amounts of economic and market analysis, do research on firms, and interact with other investors via forums or chat rooms. This, in combination with time, can transform even the most novice investor with an active interest in investments into a knowledgeable and powerful investor (Barber & Odean, 2020).

**Elimination of the “middle man”:** Investing online gives the investor a sense of control over their wealth. Buying and selling of stock no longer requires another individual to carry it out. It saves the investor the added worries that come with busy phone lines; broker not being in, etc. when wanting to do an important trade. It can be done whenever and wherever by the investor themselves (Barber & Odean, 2020).

**Elimination of Losses on account of Brokers:**

Most brokers live on commissions, hence the tactics used by them are in the favor of the broker first, the brokerage house next and finally the client. Online brokerages pay financial advisors a fixed salary, thus eliminating the chance for an investor doing unnecessary trades for the benefit of the brokerage firm and the broker (Barber & Odean, 2020).

**Inexpensive and affordable commission charges:** Commissions per trade online are much lower than when compared to that charged by traditional brokerage houses like Merrill Lynch, etc. This is the fulcrum on which online brokerages leverage. Cheap transaction costs along with the immense amount of information accessible online are the biggest reasons for the clients to move online. Traditional brokerage houses have brokers that direct clients on trades. They charge the clients an expertise fee in the form of commissions. This in time and over a number of trades turns out to be very expensive. Online brokerages have deleted the broker from the picture thus creating a lower commission charge. Online trades can cost from as little as $4 - $8 a trade. Active traders at ETrade are charged $ 4.95 per trade from its usual $14.95 per trade compared to a full service traditional commission of $180 - $250 per trade. Amex and Ameritrade offer schemes that involve commission free trades (Barber & Odean, 2020).

**Internet as an Information Superhighway:**

Information related to stocks, company fundamentals, etc., which were once only available to licensed brokers, are now at the fingertips of anyone and everyone. Online brokerages are in constant endeavor to bridge the gap between the investor and the market (Barber & Odean, 2020).

**Diverse range of investment products and choices:**

Online brokerages are offering more products to the consumer, so as to give the consumer a wider choice and also to accommodate consumers that have niche tastes. Investors can invest in stocks, bonds, mutual funds, mortgages, insurance, derivatives, futures, options, etc., online through a single or multiple website from their home, which was something fictional before the online investment phenomenon (Barber & Odean, 2020).

**Speed of trade execution:** Keeping time in mind, online trading is much quicker – as far as accessibility and availability to investment information and execution of trades are concerned. Online brokerages have decreased the time for total completion of a trade from the regular T+3 days to a matter of minutes (Barber & Odean, 2020).

**Security Issues:** Given all of the above, clients were skeptical to go online simply because of security reasons. Now, these fears can be rested with encryption technology at its zenith, the major brokerage sites are intrusion tested, with the highest levels of encryption. Furthermore, all communications between the browser and the network, occurring in the “secure sockets layer”, are encrypted (Barber & Odean, 2020).

**The costs borne by an Individual Investor from Online Investing**

**Technical Reliability:** The greatest disadvantage of online trading is the inability of a network to be fail-safe. Computers in spite of the technological advances are by no means perfect. There are various things that could go wrong like failure to log on to the network, network blackoutdue to power failure, server crash resulting in site failure, traffic overload thus causing site freeze. Site freeze can happen on extremely demanding days with large amounts of orders going over the networks. This is where Bricks and Clicks have an upper hand. Online brokerages had their share of bad publicity on October 27, 1997, when the one-day crash caused trading disruptions at the NYSE (Davis, Buchanan-Oliver & Brodie, 2019). People have gained doing trades online but have stood to lose all their profits on paper by technical faults. Web site crashes have cost various investors substantial sums of money and this in turn has left a bad taste in the investor’s mouth (Gildor & Shleifer, 2011).

**The investor is alone:**

Another disadvantage may be the penalty of a bad investment. The do it yourself attitude that empowers the investor over his own money, can give a sense of autonomy previously not experienced when dealing with traditional brokerages. But it can also spell investment failure. Stockbrokers could possibly give a bad recommendation, nevertheless they are professionals who would not just recommend a stock without doing their due diligence. That's why their services bear a premium in the form of higher commissions. A novice online investor with no sound financial basics is more likely to invest without proper analysis of the stock’s fundamentals like the key financial ratios, etc. Online trading sites provide investors with vast amount of market information without any sort of personal advice. That’s where the bricks and clicks firms have an upper hand (Barber & Odean, 2020).

**Lack of set of standards for service, etc.:**

Investors' experience in online trading differs extensively. It can be from complete gratification to complete frustration. Sad but true, just like human brokers and financial advisors, online brokerages don’t have a fixed set of minimum standards with which investors can benchmark these brokerages and choose the best suited to their liking (Donkers et al., 2020).

**The Limitations of Online Investing to an individual investor:**

Besides advantages and disadvantages, there exists the possibility of limitations of what online brokerages can do for an individual investor. Though the Internet has allowed more players into the investment playing field, some investors like the institutional investors still have an advantage over the individual investors in spite of the Internet and all its advantages. It can be assertively said, “Size does matter” (Gordon, 2008).

**Conclusion**

This article centered on the phenomenon of online investing. From the perspective of an individual investor, massively advertised by online brokerages, investing over the Internet provides tangible benefits of ease, control, cost effectiveness, autonomy, and a diverse product mix of investment vehicles. It is not wrong to acknowledge the fact that online investing has opened avenues for investors that didn’t exist before. It is still a boon to those stock savvy individuals that never could play the markets due to the high entry restrictions and the costly commission structures placed by conventional brokerage firms.

**Recommendations**

1. With the online investment scenario being fiercely competitive, such entry barriers could never be erected. This has led more and more investment savvy individuals to assume the role of an online investor.
2. This may blind a novice investor to the potential costs involved that may not stand out, but nevertheless are as real as can be.
3. Furthermore, being armed with the advantages of online investing, an individual investor still has to realize that in the face of larger institutional investors like pension funds, etc. the playing field of investments can never be leveled.

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