Week 4: Quantifying Investment Network Accuracy

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# Quantifying Investment Network Accuracy

Numerous media sources are producing day-trading recommendations to an army of untrained traders. Unlike traditional investment bankers, these personalities lack scrutiny and fiduciary responsibility to their audience. Without regulatory oversight and third-party auditing, it is impossible to ensure these personalities provide the best information. There are additional risks that the guidance is not generalizable, resulting in substantial financial losses for novice participants.

## Background Context

The number of retail customers actively day-trading is at an all-time high (Moore, 2020). Three distinct factors have caused this new trend. First, trading firms like Robinhood, Fidelity, and Ameritrade have embraced zero-fee commissions. Next, the Coronavirus pandemic is enabling young professionals more flexibility in their schedule. Finally, the significant rise in US equity values since March is promoting speculative buying. While some of these participants are becoming exceedingly wealthy (Langlois, 2021)—those are the edge cases, not the norm. Instead, these untrained investors are more akin to gamblers, and like gambling, often encounter significant losses.

Several organizations are capitalizing on the growing trend by selling day-trading strategies to these novice traders. Their services are available through numerous networks like Reddit, Discord, YouTube, podcasts, and dedicated websites. However, many of these online personalities exist without traditional regulatory oversight. For example, *Karen the Super Trader* was briefly an internet sensation after transforming $10,000 into $105MM (Tasty Trade, 2015). The Security Exchange Commission (SEC) later reported irregularities that delegitimized her brand (Steady Options, 2016).

## Potential Risk

The SEC halted this fraudulent source, but countless more day-trading content providers lack scrutiny. This scenario raises questions about the accuracy and consistency of these trade recommendations. For instance, Tasty Trade releases nearly fifty hours of video every week but does not report cumulative profits and losses. These videos also come with statistical guidance, called the probability of profit, as determined by their research team. Until a third-party auditor reproduces their calculations, it not possible to confirm they are trustworthy. Another risk exists that their strategies are not generalizable. If the untrained audience blindly follows these suggestions, it could result in substantial financial loss.