

Fun and Games

Investment Gamification and Implications for Capital Markets

Sivananth Ramachandran, CFA, CIPM

June 2023

Gamification Can Be a Force For Good



Innovation is a “practical implementation of ideas that result in the introduction of new goods or services or improvement in offering goods or services.” Schumpeter (1934)

- Gamification attracts new, younger audiences, at a stage of their lives when they should take investment risks
- Increase in trading activity improves liquidity
- Gamification can complement nudges in the area of personal finance (budgeting/microfinance apps)

Gamification Features



- Attract attention: Ux Design, Aesthetics, and Presentation of Information
- Activate social aspects of trading: Leaderboards / Copy trading
- Increase convenience: Zero commissions, Ease of account opening, one-click trading

Gamification Features and Behavioural Explanations



EXHIBIT 1. SUMMARY OF PRACTICES OF MARKET INTERMEDIARIES AND POSSIBLE BEHAVIOURAL EXPLANATIONS

Number	Practice	Possible Behavioural Explanation	Comments
1	UX design	Anchoring, contrast effect	Order of presentation of information (top mover lists, for example) can influence decisions. Use of colours (bright versus grey) can increase contrast and influence decisions.
2	Copy trading/ leader boards	Imitation/herding, disposition effect	Imitation or herding is one of the first recognized and most powerful behavioural effects in finance. Disposition effect (holding on to losers) evidenced among leaders hoping to avoid reputation loss among followers.
3	Notifications around price moves	Disposition effect	Winners sold off more quickly than losers, based on notification on significant price moves.
4	Zero-commission trading	Zero-price effect	Pricing an item at zero appears to increase its intrinsic value.
5	Default margin account	Status quo bias	Tendency to stay in the default choice
6	Fractional share trading	Counteracts nominal price illusion	Belief that low-priced shares are more likely to appreciate than higher-priced shares
7	Posting trades in social media	Commitment device	Locking oneself to a plan of action—holding on to a losing trade—even if it is a poor choice from a risk management perspective

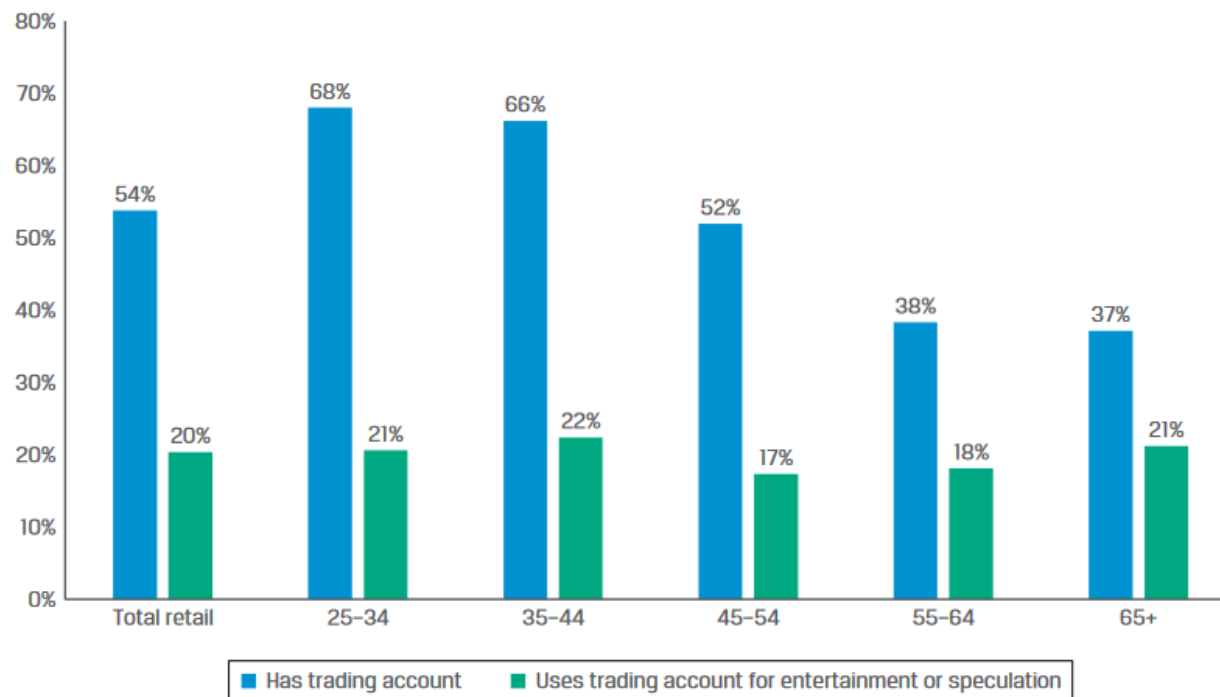
Gamification: Findings From Our Investor Trust Study 2022

Gamification: Results from our Investor Trust Study



Around 20% of the retail investors we surveyed globally (N=~3500) said they use trading account primarily for entertainment or speculation.

EXHIBIT 2. USE OF TRADING ACCOUNTS AND PRIMARY REASON FOR USE



Gamification: Results from our Investor Trust Study (2)

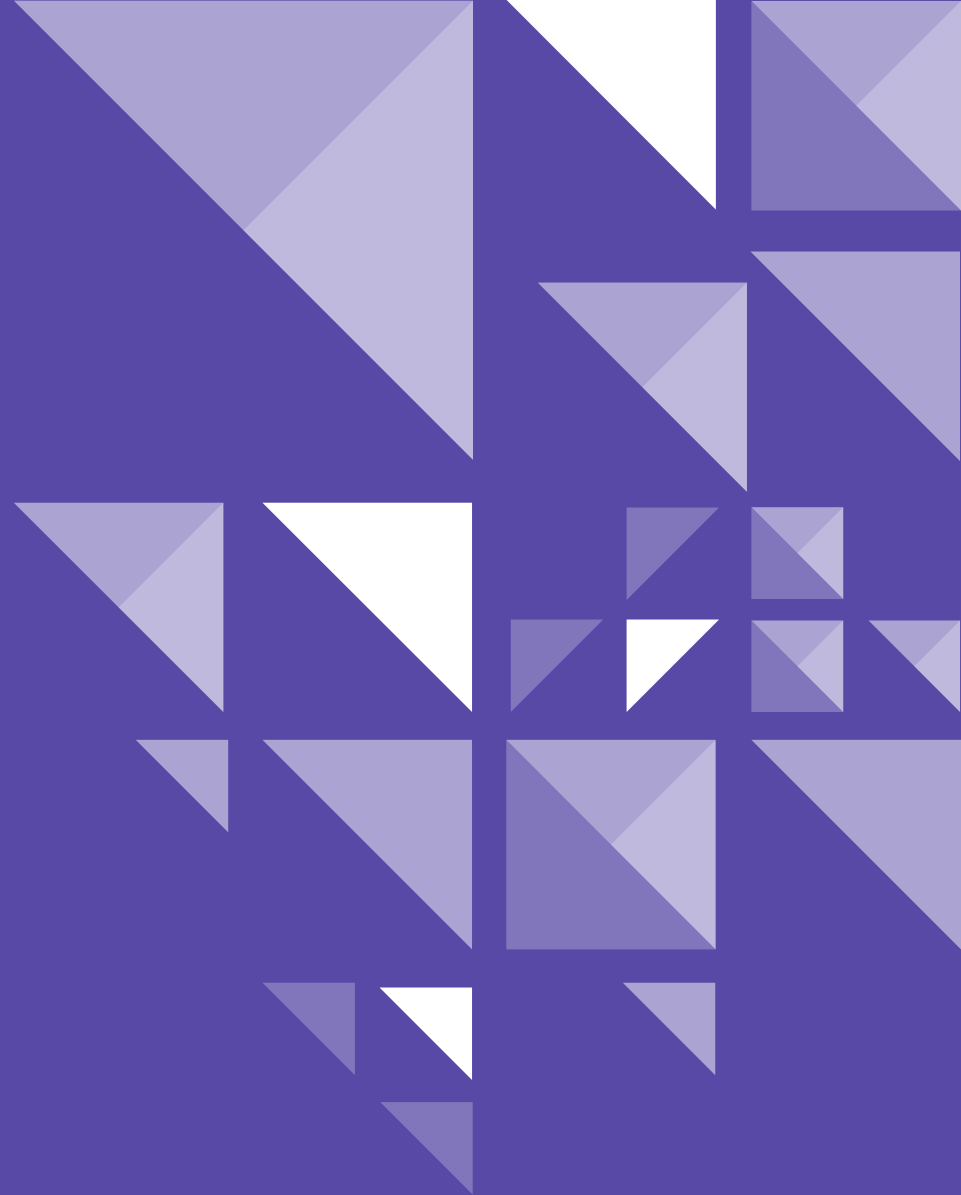


A majority of retail investors said they trust digital nudges, trading apps enhance their understanding of investing, but use of apps also increase their frequency of trading.

EXHIBIT 3. 2022 CFA INSTITUTE INVESTOR TRUST STUDY: USE OF TRADING ACCOUNTS AND ATTITUDES TOWARD THEM						
	Total Retail	25-34	35-44	45-54	55-64	65+
Has trading account	54%	68%	66%	52%	38%	37%
Trust in digital nudges	74%	92%	86%	72%	51%	33%
Retail trading tools/apps enhance understanding of investing	71%	87%	82%	66%	49%	36%
Trust completeness and accuracy of information about complex financial products	61%	80%	73%	55%	33%	25%
Retail trading tools/apps increase frequency of trading	57%	75%	73%	56%	28%	10%

Source: 2022 CFA Institute Investor Trust Study.

Recommendations



Recommendations (1)



Our recommendations span principles, disclosures, and conduct.

- App design should include features that allow for review and reflection by users
- Reward and feedback systems, if any, should focus on long-term investor outcomes and not on transactions or short-term outcomes
- Research about stocks and other asset classes must be based on reputable sources

Recommendations (2)



Our recommendations span principles, disclosures, and conduct.

- Market intermediaries are encouraged to provide point-of-transaction disclosures in plain language
- Disclosures must take into account the medium through which they are consumed
- There should be full transparency around remuneration to social influencers

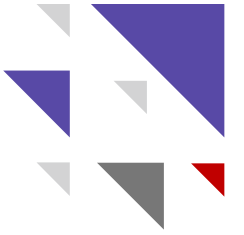
Recommendations (3)



Our recommendations span principles, disclosures, and conduct.

- Investor education materials and other public communications must not mislead or downplay the risks and complexity inherent in investing
- Warning label for brokerage communications, including advertisement
- Licensing requirements for social influencers should distinguish between general and personal advice

For more information, please refer to our report



© 2021 CFA Institute. All rights reserved.