

Gamification of Stock Trading: Losers and Winners by Eduard Yelagin

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Summary

The paper uses staggered introduction of game-like features in broker phone applications to study the casual effect of these features on retail traders and on overall market.

The introductions of game-like features does not increase the number of retail traders, but increases the intensity of their trading. It also lowers retail traders returns, and increases their return volatility.

Even tough gamification makes retail traders worse of, it improves overall market liquidity by lowering spreads. It also increases trading volume and reduces price and return volatility.

Idea

Introduction of game like features should affect the participation of retail investors in trading

“I define an update as potentially gamified if its description contains one of the following words: design, color(s), font(s), notification(s), referral(s), reward(s), and leaderboard(s).”

Comment:

Why not use CHatGPT or similar models to classify updates?

Comments

The results are clear, but what is the mechanism?

Are game like features distracting for users, i.e. they are attracted by the app, but think less about the substance of investment.

“previous research indicates that gamification targets impulsive individuals”

How gamification compares with other updates? i.e. are there any updates that benefit both retail investors and overall market?

Maybe one can come up with a classification of updates using text analysis dangerous updates.

Sub penny identification of retail trades might capture only a particular kind of retail trades, and not all of them.

Comments

Why $returnvolatility_{it} = retailreturn_{it}^2$ and not demean the measure?

Maybe the composition of retail traders changes with time: younger or less sophisticated investors join later

Is there any heterogeneity between stocks? Do popular or very liquid stocks differ from ordinary stocks (TESLA, Alphabet)

What gamification does to recent IPO stocks, i.e. to young companies?

Broker incentives and competition

It seems that brokers benefit from more active trading by users.
Market makers also benefit, and only retail investors loose.

Do regulators need to intervene in any way? Regulate commissions?

Or eventually competition for users will force brokers to make less game-like applications?

Do retail investors use several apps for trading and compare them?

Conclusion

Very nice paper!

Important findings for market participants and regulators.

Results should be taken into account when thinking of improving stock market participation by individuals.