

# ADDRESSING THE IMPACT OF SOCIAL MEDIA ON INVESTORS

Adam James Reynolds of Saxo Capital Markets talks about addressing the impact of social media on investors

**“At the moment, in the analog world, there has been quite a failure, a miserable failure I would say in providing opportunities for investment for clients”**

The purpose of the financial services industry is to help clients find opportunities for investment. Whether it is mutual funds or direct equities, when a client is looking to invest, he turns to his trusted financial advisors and wealth managers to provide him with insights about the market.

Most markets across the globe are very efficient and they factor in all pieces of information available, including investor sentiment and confidence. In such a market, it is important for research insights and investment ideas to be delivered to potential investors as soon as possible, for them to gain any advantage and make a profit.

Before we even question the quality of research available today, we need to look at when the information is delivered to the client. Often, by the time the client has access to good information, he has either already made his investment blindly or lost the opportunity.

In a world where opportunity lost equals opportunity cost, Reynolds says investors are slowly looking elsewhere for



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advice. At the moment, there is a small group of people who're exploring the advice that is available online and trying to devise methods to judge it and use it to make informed investment decisions in a timely manner. If the increasing interest levels are anything to go by, the investors seem to be appreciating "social trading platforms" more than people in the financial services industry anticipated.

## **“The new digital world of social trading puts a new paradigm in place that independent analysts and independent thinkers can start to put out their research to a mass market audience”**

Social trading, simply put, is a platform that is used to source information about the financial markets from peers. The trouble with these platforms is that information doesn't necessarily have to be true to become popular. The investor must abide by the principle of caveat emptor or buyer beware as he is solely responsible for the information he uses to make a financial decision.

### **Failure of the analogue model**

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The interest among UHNW individuals in commercial real estate has grown significantly. The analogue world has lots of troubles when it comes to delivering research and investment insights. A series of scandals, lack of transparency & accountability and a conflict of interest is what the financial services industry has gained a reputation for.

The model has been a complete failure from the perspective of the client who does not get what he needs but also stands to lose wealth from incorrect and untimely information.

For research houses and investment banks, the problem is slightly different. They produce quality research and great insights but they fail to deliver it to the clients because their compliance teams require between twenty four to thirty six hours to review the data and approve it for distribution. Even though their advice is professional and generally non-biased, it doesn't help the client very much.

Reynolds believes that the social model has come into existence to solve this problem that investors have and it has already found a footing in the lives of many people who don't necessarily have access to private bankers. However, it won't take long for this to penetrate up to the wealthier clients over time as the content improves, becomes more concise and actionable and more rewarding to follow.

### **The power of social trading**

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Facebook grew from 145 million users per month to 1.3 billion in just 6 years. Twitter grew from 30 million active accounts to 270 million in 4 years. Reynolds believes that the technology that they brought into place really has become a delivery mechanism that the financial service industry can use to deliver research and opportunities to clients.

However, independent analysts and independent thinkers can start to put out their research to a mass market audience as well now without having to look for subscribers or build a network of clients. The content can be delivered to anyone and the network can grow exponentially because people can share and subscribe to what they like.

There are a lot of popular social trading platforms already out there and Saxo has launched one too. Reynolds observes that it is interesting to know that the number of users they have on the site is 10 times the number of customers that they have for the bank.

In Reynolds' opinion, this is the way forward for investment advice. Disruptive technologies typically come in at a lower tier and keep improving till one day, they undermine the business model of the traditional businesses. It is still a developing platform and nobody is sure if there will be more fragmentation or consolidation but the model won't die because it gives immense power to investors and allows them to seize opportunities that conventional models can't bring to them on time.