ECONOMIC ASSESSMENT OF THE ACTIVITY OF RETAIL INVESTORS ON THE STOCK MARKET

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Abstract. *The article examines the activity of a retail investor on the stock market. Issues of economic assessment of their activity and problems of increasing its effectiveness are studied. The dynamics of the share of retail investors in the total volume of trading in the stock market is analyzed. The key factors of growth of retail investors' activity in the stock market are studied. It was determined that the share of retail investors in the volume of trades on the stock market has almost doubled. The factors that caused such a powerful dynamic were analyzed. Two factors such as available investment opportunities and empowerment through information are discussed in detail. An economic assessment of the effectiveness of the activities of retail investors was carried out. The reasons for the negative results of their work on the stock market have been revealed. The importance of developing specific investment goals before starting investment activities on the stock market and adapting investment strategies to them is determined. It is suggested to use paper trading simulators that reproduce the real trading environment. It has been found to allow investors to make virtual trades and track their performance in real time. It is recommended to engage more comprehensive analytical and research platforms that provide tools for charting and price research. This has been proven to allow investors to more effectively analyze market trends, identify potential economic opportunities, and develop effective trading strategies. Possibilities of minimizing transaction costs through the use of ETFs-shares of investment funds, which are often traded on the stock exchange, are considered. As a result of the conducted research, the possibilities of further scientific research on this topic in the direction of using the latest financial programs based on artificial intelligence and comprehensive assessment of the interaction of various sectors of the stock market with their help were considered.*

Keywords*: economic assessment, retail investor, stock market, trading simulators, transaction costs, efficiency, economic development.*

JEL Classification: G 14; G 31

Formulas: 0, fig.: 5, tabl.: 0, bibl.: 18

Introduction. Recently, there has been a significant increase in the activity of retail investors in the stock market. However, the economic results of their investment activities are quite low. Retail investors often lack the knowledge, skills and experience to conduct thorough economic research and due diligence before making investment decisions. Also, behavioral biases play one of the most important roles in the low bottom line economic results of retail investors. Often, an emotional approach to making investment decisions leads to losses in financial transactions. In addition, retail investors tend to have higher transaction costs compared to institutional investors. Therefore, the activity of retail investors on the stock market requires a comprehensive assessment and detailed research, as well as requires the development of effective economic methods of increasing their efficiency.

Literature review. This topic was studied by a number of scientists, among whom it is worth highlighting Aramonte, & Avalos (2021), who analyzed the dynamics of operations on the stock market and the growing influence of retail investors on it. Investors need timely information about prices and the main factors affecting prices, as well as the ability to close the deal quickly (Arabov, & Kuzminsky, 2021). In this regard, Rumyk (2021) insists on the use of powerful econometric modeling tools in the assessment and research of economic indicators. Krūmiņš (2023) worked on the assessment of performance indicators of retail investors. Coleman (2024) studied the dynamics of the return on investment operations of retail investors and compared it with the general return on the stock market.

According to the analysis of Salvucci (2023), & Ahuja, (2024) the most common reasons why retail investors lose money in the stock market can be identified and understood. Gaurav (2024) reviews the essential techniques that she believes every retail investor should know and apply for financial success.

The works of Jain, R., & Jain, A. (2022) are devoted to research on ways to improve the performance of retail investors in the stock market. Investment strategies to increase the profitability of investors in the stock market were developed by Thune (2022).

Smart contracts, which are the embodiment of computer programs, are able to automate, confirm and ensure the execution of agreements, in particular, in the stock market. They believe that unlike traditional software, smart contracts have the properties of immutability and irreversibility, which makes them ideal for use in a variety of business and legal fields (Rumyk, & Kovalchuk, 2024).

Instead, it must be noted that the constant change in the factors and conditions of investors' activity on the stock market and the emergence of new financial instruments require constant scientific economic research that takes into account the challenges of today.

Aims. The purpose of the article is to study the possibilities of conducting an economic evaluation of the activities of retail investors on the stock market and to develop proposals for improving their efficiency.

Methodology. The following methods were used to conduct the research in view of the stated goals of the article: theoretical generalization and abstract-logical (collection and processing of information from scientific and statistical sources); analytical and comparative (study and characterization of information and trading platforms); systematic approach (analysis of innovative tools on the stock market); deductive method (summarization of the obtained data and formulation of final conclusions).

Results. The stock market has long been dominated by institutional investors, such as hedge funds, investment banks and pension funds, who have the resources and experience to navigate complex financial market situations. For example, the total value of assets formed by non-state pension funds in Ukraine as of September 30, 2022 amounted to UAH 4,024.7 million, which is 6.2% or UAH 236.1 million. more compared to the same period of 2021. The specified analysis of the results of the NPF activity shows that the funds are able to mobilize significant amounts of long-term financial resources and transform them into an investment resource (Rumyk, Kuzminsky, & Kostylova, 2023).

However, in recent years there has been a significant increase in retail investors participating in the stock market (FasterCapital, 2024). Armed with readily available information and online trading platforms, these individual investors can now take control of their own investment decisions and challenge traditional Wall Street professionals.

On the one hand, the growth of retail investors can be seen as the democratization of finance. In the past, investing in stocks was often limited to those with significant wealth or connections to financial institutions. Retail investors were left out without access to the same wealth-building opportunities. However, with the advent of commission-free trading platforms such as Robinhood and increased access to financial information through social media and online forums, retail investors now have a level playing field.

The retail investor market, while once unimportant to Wall Street's major players, has become a force to be reckoned with. According to Bloomberg Intelligence, the share of retail investors in total trading volume has increased from just above 10% in 2011 to more than 22% in 2021. According to IBISWorld, the market for individual investors reached $7.2 trillion as of the beginning of 2023 (Salvucci, 2023) (See Figure 1).

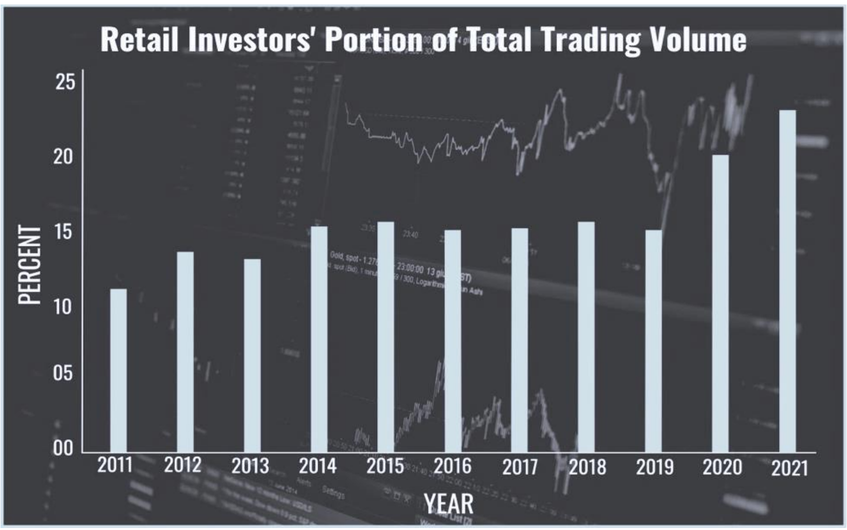

Figure 1. The share of retail investors in the volume of trading on the stock market

Source: built on the basis of data from the Salvucci (2023)

According to the World Economic Forum, retail investors collectively held 52% of global assets in 2021, which is projected to grow to more than 61% by 2030.

From 2011 to 2021, the share of retail investors in the volume of trades has almost doubled. Such powerful dynamics occurred due to the following factors:

1. *Available investment opportunities*: Retail investors now have access to a wide range of investment opportunities that were previously reserved for institutional investors. They can invest in individual stocks, exchange-traded funds (ETFs), options contracts and even cryptocurrencies with just a few clicks on their smartphones. This allows them to diversify their portfolios and potentially earn higher returns (FasterCapital, 2024).

2. *Empowerment through Information*: The Internet has revolutionized the way information is distributed, and retail investors are taking full advantage of this. Online communities like Wall Street Bets Reddit have become hubs for sharing investment ideas and strategies. Retail investors can now tap into the collective wisdom and gain insights from fellow traders who may have different perspectives or unique research findings. This democratization of information enables people to make more informed investment decisions.

In addition to traditional buy-and-hold investing, retail investors use alternative strategies to maximize their returns. One such strategy is day trading, where investors buy and sell stocks during a single trading day, seeking to profit from short-term price fluctuations. Although day trading can be very risky and speculative, it offers the potential for quick profits, attracting a large number of retail investors looking for a thrill. Options trading is another popular strategy among retail investors that allows them to speculate on stock price movements without actually owning the underlying stock. These alternative strategies provide retail investors with additional opportunities for market participation and potential profit.

But despite the democratization of investing and the availability of vast resources, retail investors often lag behind the overall market performance.

Just look at the graph below (Figure 2), which illustrates the average investor's return relative to the S&P 500 stock index and inflation. The graph below is particularly striking as it illustrates the growth of $100,000 invested in stocks over the past 30 years, with the average investor making 44% less than the stock market as a whole (Coleman, 2024).

It is perhaps because of this poor performance that professional players on Wall Street, such as hedge funds, investment banks and other institutional investors, refer to retail investors as “dumb” money (Salvucci, 2023). Quite crudely, but the numbers for the long term speak volumes about the results not in favor of small investors.

What is the reason for such low efficiency of the retail investor's activity on the stock market?

In our opinion, this is due to a number of factors.

Retail investors often lack the resources, time or expertise to conduct thorough research and due diligence before making investment decisions.

Also, behavioral biases play one of the most important roles in the low performance of retail investors (OsbornePartners, 2024). Emotions such as fear, greed, and overconfidence can cloud judgment and lead to suboptimal investment decisions.

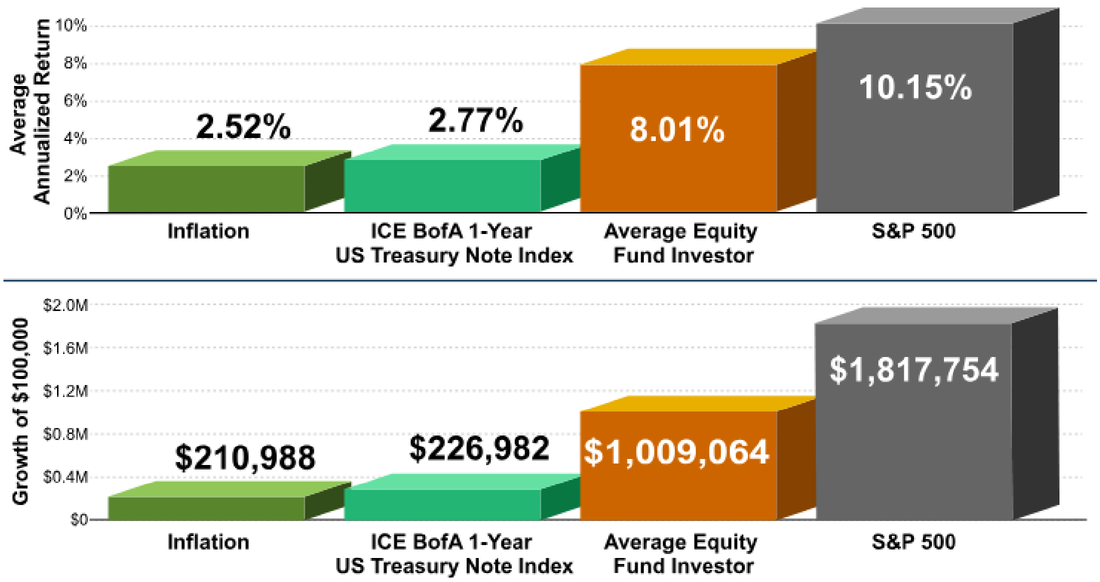

Figure 2. The difference in returns on the example of $100,000 growth between the average stock investor and the S&P 500 over the past 30 years and a comparison of the retail investor's average annual return against inflation and short-term bond yields

Source: built on the basis of data from the Coleman (2024)

In particular, when investor and consumer sentiment in the economy is negative, markets have historically produced some of the best returns. On the other hand, when consumer sentiment is positive, the market yields lower returns.

In summary, we can say that the low efficiency of retail investors often depends on a combination of behavioral biases, lack of experience and discipline, as well as higher transaction costs.

What methods can the average retail investor use to improve the results of his work? In our opinion, there are a number of ways to improve the efficiency of the retail investor's activity on the stock market.

First of all, retail investors should set specific investment goals (Gaurav, 2024). Whether it's saving for retirement, buying a home, or financing higher education. The goals should be clear and it focuses the attention of investors to a great extent. According to the goals, you should adapt your investment strategies, choosing options that correlate with the goals and risk tolerance.

In addition, for novice retail investors who want to gain experience and practice their trading strategies without risking real money, it is worth using paper trading simulators (FasterCapital, 2024). These simulators recreate a real trading environment, allowing investors to make virtual trades and monitor their performance in real time. A variety of online brokerage platforms offer paper trading features that allow investors to test their strategies, understand the impact of various market conditions, and improve their skills before venturing into real trading.

When it comes to market analysis, it is critical for retail investors to have access to reliable and comprehensive research platforms. A few selected online resources will provide valuable information and analysis to help investors make informed decisions.

For example, platforms such as E*TRADE, TD Ameritrade, Interactive Brokers, Tradingview and others offer a wide range of tools and resources specifically designed for stock trading (Figure 3).

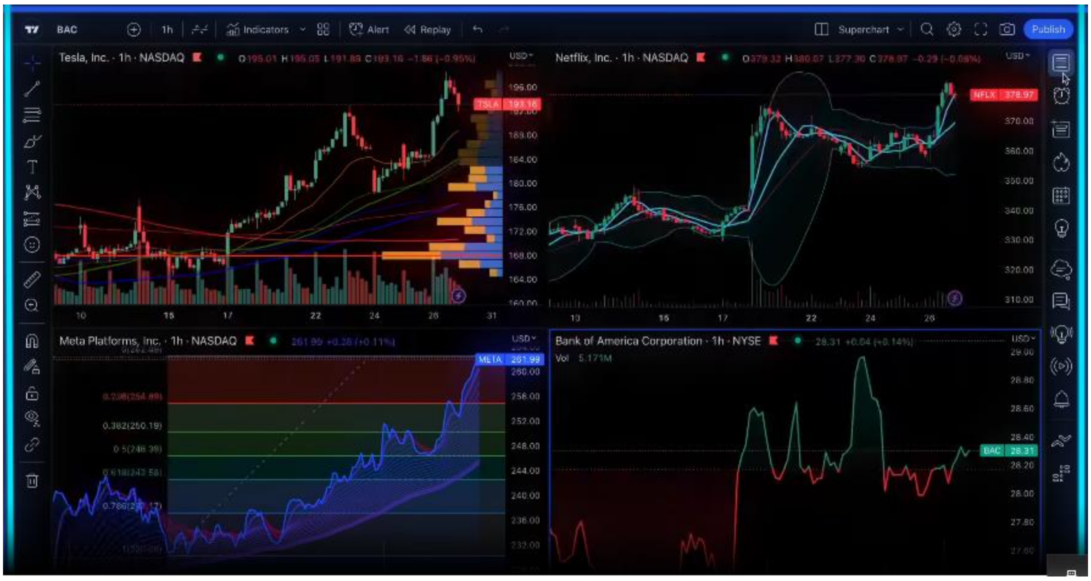

Figure 3. Analytical platform Tradingview

Source: built on the basis of data from the Analytical platform Tradingview (2024)

These platforms provide real-time market data, sophisticated charting and price research tools, allowing investors to analyze market trends, identify potential opportunities and develop effective trading strategies.

Some analytical and research platforms, such as Finviz, provide an opportunity to monitor the stock markets of all countries, thus keeping in view the entire "investment field" of the planet (Figure 4).

Figure 4. Analytical and research platform Finviz

Source: built on the basis of data from the Analytical and research platform Finviz (2024)

One of the extremely important ways to improve the efficiency of a retail investor's activity on the stock market is proper cost management. And, first of all, it concerns the minimization of transaction costs (OsbornePartners, 2024). In this regard, a good way for a retail investor is to use ETFs.

ETF (Exchange Traded Fund) is an exchange-traded investment fund whose units are traded on the stock exchange. If it is an index fund, then the structure of the ETF repeats the structure of the selected underlying index. Unlike an index PIF, with ETF shares you can do all the same operations that are available for ordinary shares in stock exchange trading. This is the main advantage of ETFs over mutual funds - transactions on ETF shares can take place throughout the trading day, and their price changes depending on the activity of market participants. In fact, ETF is a new type of securities that act as a certificate for a portfolio of shares, bonds, and exchange-traded goods.

Shares of the ETF fund have high liquidity: if shares of the mutual fund can be sold and bought only once a day, since their value is updated only after the close of trading by dividing the value of all net assets of the fund by the number of shares, then shares of the ETF fund can be bought and sold in at any time during the entire trading day, because their value, like the value of ordinary shares, is determined by the behavior of the participants in the auction.

There are 4,126 exchange-traded funds (5,757 including Exchange Traded Products). The volume of assets in ETFs is 2.867 trillion dollars (3.015 together with Exchange Traded Products).

A classic index fund is a fund whose assets consist 100% of shares included in the index. At the same time, the shares in the fund's portfolio should be in the same proportion as in the index. The first index fund was created in 1975 by John Bogle. Since then, the advertising noise about encouraging investors to invest in index funds has not subsided in the world.

Index funds are becoming increasingly popular among investors. The aggregate amount of investments in them grows by 15-20% per year. The total number of index funds in the world has reached 5,000, the total portfolio is $2.7 trillion. More than $500 billion of this amount has flowed since 2010 from funds focused on the purchase of individual securities.

Such rapid indicators of the dynamics of index investing are primarily related to the advantages it has compared to other forms of investment:

- *low costs*. The index strategy is extremely simple to implement, since the analysis of individual assets or issuers is not carried out. The need for any macroeconomic analysis also disappears. This allows index funds to operate with minimal fees. For example, US stock index funds have commissions of the order of 0.03-0.05% per year;
- *investment transparency*, *ease of management*. Since the investor is not required to have knowledge about the stock market, the management of the index portfolio is reduced to purely technical issues;
- *low level of risk*. This is achieved primarily through broad diversification.

Thus, one of the largest and most successful of the currently existing index ETF funds - Standard and Poor's 500 Depository Receipt, known on the US stock exchanges under the ticker SPY, covers such sectors of the economy as technology, finance, health care, consumer goods, industry, energy, communal services, raw materials, telecommunications. SPY includes such giants as Apple, Microsoft, Amazon, Facebook, JPMorgan and other world-famous names (Figure 5).

Thus, by investing in an index fund, you can receive income from the growth of the economy of the entire country, without trying to guess which company will turn out to be better.

Discussion. Significant changes took place in the financial markets, which began to require market participants to use the latest technological weapons. What changes are meant (Kuzminsky, 2023):

1) complication of the architecture of financial markets. Emergence of new financial assets and market sectors (cryptocurrency market, ETF market).

2) significant increase in the speed of operations (milliseconds).

3) oversaturation and information overload of the average financial market participant (trader, investor).

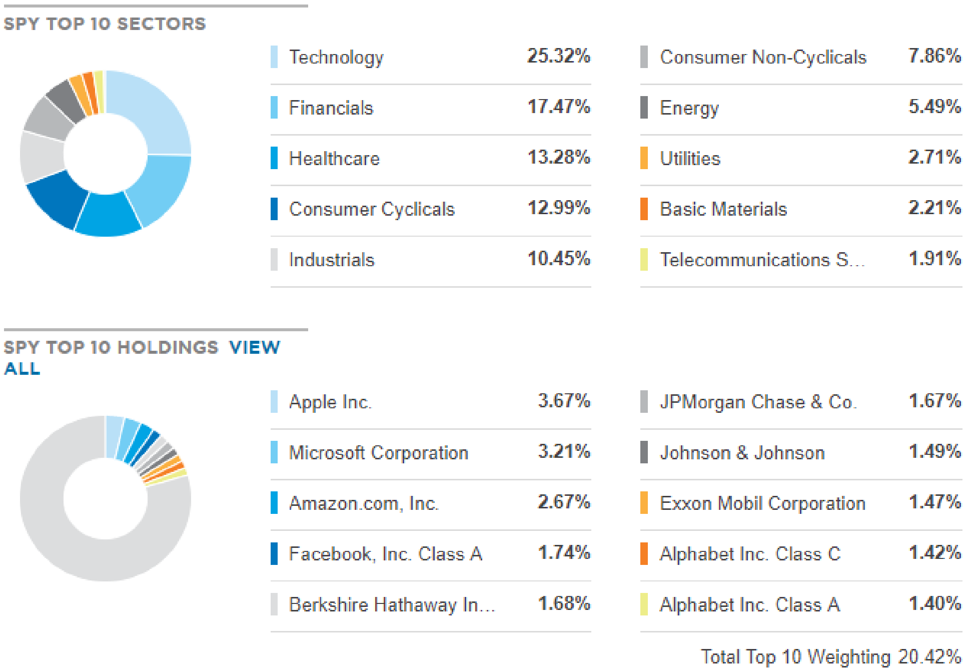

Figure. 5. Structure of index ETF funds - Standard and Poor's 500 Depository Receipt

Source: built on the basis of data from the ETF.com (2024)

In order to improve the economic results of his work on the stock market, a retail investor can use a number of effective methods:

- develop specific investment goals before starting your investment activities on the stock market and adapt your investment strategies in accordance with these goals;

- use paper trading simulators that recreate a real trading environment, allowing investors to make virtual transactions and monitor their performance in real time;

- to a greater extent involve complex analytical and research platforms that provide charting and price research tools that allow investors to analyze market trends, identify potential opportunities and develop effective trading strategies;

- minimize your transaction costs through the use of ETFs - shares of investment funds traded on the stock exchange.

Of course, we understand that following the above approaches is easier said than done. But by using these techniques and a proactive and disciplined approach to investing, retail investors can greatly increase their chances of making decent returns.

Conclusions. Summarizing the above, it can be noted that in recent years there has been a significant increase in retail investors participating in the stock market. The volumes of their operations are constantly growing. However, the results of their investment activities are quite low. This is because retail investors often lack the resources, time and experience to conduct thorough research and due diligence before making investment decisions.

As further research on this topic, in our opinion, it is important to study the possibilities of using the latest financial programs based on artificial intelligence and comprehensive assessment using them of the interaction of various sectors of the stock market.

Author contributions. The authors contributed equally.

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