

Are You An Informed Investor?

Social Media, Online Trading and Investing

In our digitally connected world, some investors turn to online chatrooms and social media platforms for information about investing or specific investment opportunities. Phone apps can turn even the most casual investor into a day trader, and online investment chat forums make it easy to use these sources for investment advice rather than using the services of a registered investment adviser. While ever-evolving technology makes investing more accessible to greater numbers of people, the informed investor knows that technological democratization also brings significant risk.

Know the Risks: Be an Informed Investor, Not an Unwise One

Informed investors realize they have more power than ever to effect change in the marketplace.

For example, investors now understand they can focus their investment decisions to influence how a company operates – even influencing a company’s environmental decisions, social values, and how public companies are governed.

Conversely, investors know they can also use social media to raise or lower interest in a certain company, thereby influencing the trading volatility of that stock.

Informed investors with long-term investment goals should be cautious of making investment decisions based solely on social media campaigns. Here are some ways an informed investor can avoid making emotional decisions that can negatively impact their investing strategy:

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Social Investing. Resist the pressure created by social media chat platforms and buy/sell indicators influenced by social opinions. An informed investor does their homework on the sources making the recommendations. They look for secondary sources and check with a licensed professional.

Day Trading. An informed investor knows that day trading has rules. An informed investor knows that most investment professionals, and the securities they sell or are paid to advise clients about, must be registered with either or both federal, state or provincial securities regulators. An informed investor will check the registration status of both the promoter and the investment product before making any purchase.

Trading on Margin, Options. Make sure you fully understand how trading on margin and options work before undertaking such a strategy. Margin and options trading generally is riskier than simply buying or selling securities and many investors have “gotten burned” by this activity. For more information on margin trading and its risks, see the U.S. Securities and Exchange Commission’s investor bulletins: [Understanding Margin](#)

[Accounts](#) and [Margin Rules for Day Trading](#). A particularly risky form of options are binary options. For more information see [Informed Investor Bulletin: Binary Options](#).

Price Volatility. The stock of a publicly traded company can fluctuate rapidly throughout the trading day. An informed investor will keep their long-term investment goals in mind before being pressured into any volatile investment.

Focus On The Long Term. An impulsive investment today can derail your long-term investing strategy. It is important to keep your emotions in check. Take time to research any investment and consider talking to a licensed professional before buying or selling.

The Bottom Line

It can be easy to get caught up in the hype of a stock while listening to social media platforms. Informed investors will think with their head, not with their heart, when making investment decisions, and will remember their long-term goals. Contact us to learn more about investing, its benefits and potential pitfalls.

To learn more, contact the KENTUCKY DEPARTMENT OF FINANCIAL INSTITUTIONS

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