

Social media shapes new investment strategy

You'll let a friend walk your dog, drive your car or watch your teenager. Would you let them — or someone you don't even know — invest your money? That's the idea behind "mirrored investing," an invention that could be one of the most dramatic experiments in the world of online investing since the ability to place trades over the Internet shook up the brokerage industry more than a decade ago.

As crazy as it might sound, a new breed of online services and brokerages are betting that investors don't just want to meet and chat with other investors, but also turn control of their entire portfolios over to them. It's such a new development that statistics on popularity aren't available yet. But the trend's supporters expect it to catch on.

Mirrored investing allows you to essentially turn the keys of your portfolio over to another investor — sometimes a friend, other times a stranger. When that other investor makes trades in their own account, the trades are executed, or mirrored, in your account at virtually the same time. If the investor you're following makes money, you ride along with them to riches.

But if they flame out and lose money, so do you. ... The concept of following other investors is just the digital version of the way many investors have prospected for stocks for years. Investors have long traded stock tips with relatives at family picnics. And investors have been chatting about stocks online since the early days of the Internet in anonymous chat rooms. Yet most of the larger and more established brokerage firms, including those at the forefront using social networking in various ways, say mirrored investing goes too far.

Not only can it violate investors' trust if trades go bad, it's counter to the trend of investors wanting to take control back, not give it away. ... There are also more serious concerns, too, as some worry about ways the technology could open up new avenues for securities fraud. It's possible, for instance, for an investor who is being widely followed to illegally profit from the fact that he controls captive buyers.

One of these traders, for instance, could buy a stock in a separate personal account, then issue the same order in the mirrored account, pushing up the price as all the following accounts buy the stock as instructed. He could then sell the stock in the private account at a profit, before selling in the mirrored account triggered more selling and, thus, a lower price. In a way, that would be a version of the old "pump and dump" scam. ... Another knock against mirrored investors are fees.

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