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The Modern World of Finance:
How Social Media Has Changed Investing and How Audit Can Help

Historical Background:

1. The Great Depression broke people's trust in the stock market and public companies.
2. The Securities Act of 1933 and Securities Exchange Act (SEC) of 1934 established the foundation of modern audit practice as well as the governing body (the SEC).
3. Generally Accepted Accounting Principles (GAAP) were established in 1936 and have since evolved to create the modern base of accounting principles, standards, and procedures.
4. Enron rocked the financial and accounting worlds in 2001 after it was found out they doctored their accounting information pretty drastically.
5. The Sarbanes Oxley Act (SOX) of 2002 established the Public Company Accounting Oversight Board to essentially create auditors for the auditors.

- <u>Main Point:</u> Audit has evolved to protect the public and maintain trust in the stock market & public companies.

The Investing Revolution:

❖ Robinhood is a modern investing platform that has both gamified and democratized finance.
❖ Robinhood popularized commission free & fractional trading.
❖ Robinhood also “promotes” riskier trading behavior by having popular & volatile stocks listed, which allows for herd behavior, and by gamifying serious investing strategies such as with options (essentially betting on stock movement) and with margin (borrowed money).

❖ <u>Main Point:</u> Robinhood allowed larger demographics of people to invest but it has also allowed for risky trading behavior.

Social Media's Effect on Stocks:

- The Gamestop Fiasco
  - In January of 2021 a short squeeze was attempted on Gamestop, making the stock price skyrocket as much as 1500%.
  - Short Squeeze: the rapid increase of a stock due to an excess of short selling (betting on the stock to go down) (borrow stock, sell at high price, wait, buy at lower price)
  - Started by reddit group r/Wallstreetbets and fueled by people like Elon Musk via twitter, FB, IG
- Finance Influencers
  - Passive influencers
    - People like Elon Musk are viewed as finance idols and their tweets can be seen as advice even if it is mere banter or random tweeting.
  - Active Influencers
    - People like Gram Stephen who make social media content specifically related to finance.
    - Some are legit while others merely appear to be knowledgeable to make money off of their programs and buyable content.
  - <u>Main Point:</u> Overall finance influencers are not necessarily bad, but they largely have too much power and when people take advice & tweets blindly without research it is a recipe for disaster.

Research Question:

What is the best way audit can mitigate social media related information risk?

Methodology:

- Three-part research project involving: trading psychology, current audit practices, & current social media content regulation strategies & technology.

Expected Results:

- Will be published in an academic paper and experimentation can be conducted to further validate conclusions.
- Initial ideas for solutions include
  - <u>Credibility & Context:</u> audit requirements for releases from influencers/companies could reduce information risk
  - <u>Censorship:</u> restricting the flow of erroneous & misleading financial information utilizing current social media censorship technology
  - <u>Punishment:</u> Implementing repercussions for releasing erroneous & misleading financial information
  - <u>Corrective Measures:</u> releasing correct & relevant information via social media accounts to provide an easy reference point for investors to check
  - <u>Preventative Measures:</u> requiring all investors to complete an information/ social media information risk crash course before being allowed to enroll in any exchange platform