The Rise of Retail Investors: How Technology Changed the Game

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Abstract

This paper explains the emergence of retail investors and looks at the variables influencing this shift, paying special attention to the part played by technology. The evolution of investing has changed as a result of the development of investment tools, mobile applications, and the removal of conventional brokerage costs. The research also explores how social media affects investing behaviour, the dangers and difficulties faced by retail investors, and the regulatory measures used to control this expanding market. This study seeks to clarify the future of retail investment and its consequences for the financial ecosystem by examining case studies like GameStop and the emergence of fintech platforms in India.

1. Introduction

In recent years, the world of investing has undergone a profound transformation, largely driven by the rise of "retail investors". These investors are ordinary individuals who invest their personal funds in financial markets, often without the assistance of professional advisors or managers. With the widespread availability of online trading platforms like Zerodha, Groww, and Angel One , retail investors now have unprecedented access to global markets, empowering them to make investment decisions at their fingertips. Traditionally, the stock market was dominated by institutional investors such as pension funds, hedge funds, and mutual funds, which managed large sums of money. However, with the rise of low-cost brokerage services and the growing influence of social media, individual retail investors have become a significant force in financial markets.

Since lockdowns and stay-at-home policies forced many people to look into new financial options, the COVID-19 epidemic served as a catalyst, accelerating the trend towards retail investment. A rising interest in financial literacy, social media-driven investing movements, and even the excitement of speculating ; all contributed to the rise in retail involvement, in addition to the desire to make money. The ability of retail investors to challenge institutional methods was demonstrated by notable occurrences like the "GameStop" short squeeze in early 2021, which demonstrated that individual investors could collectively impact the market in previously unthinkable ways.

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2. History & Background of Retail Investing

Retail investing in the simplest terms has existed for a few centuries, but its scope, accessibility, and influence have evolved considerably over the course of history. Historically, investing in the markets was the domain of wealthy individuals or big financial institutions. High-cost brokerage, restricted access to real-time data, and the absence of convenient platforms kept the common man away from direct dealings in the markets. Institutional investors—mutual funds, pension funds, and insurance firms—controlled the investment space, which had the required capital, infrastructure, and expertise to manage sophisticated markets.

The late 20th century was a major turning point in the history of financial markets, especially in developed countries like the United States. Before this period, investing in the stock market was something mostly done by large financial institutions or wealthy individuals. Ordinary people often found it difficult to participate because of high fees, complicated processes, and limited access to information. However, during the 1970s and 1980s, several big changes started to take place that made the financial world more open and easier to enter for everyday investors.One of the most significant changes occurred with the deregulation of financial markets. This refers to the fact that government regulators started the process of removing or loosening some stringent rules that had governed the business operations of financial institutions. The objective was to foster more competition, reduce costs, and stimulate innovation. Concurrently, new technologies were emerging—most notably, electronic trading systems. These systems substituted traditional, paper-based trading with quicker, computer-based systems. Consequently, this enhanced trading efficiency and significantly lowered costs, enabling individuals to make stock transactions quicker and at reduced fees. Another major development was the rise of discount brokerage firms. Traditional brokers charged high commissions to make trades for clients, which discouraged many individuals from investing. But companies like "Charles Schwab" changed the game by offering low-cost brokerage services. These firms focused on making investing simple, affordable, and more transparent for everyday people. As a result, more individuals started investing in the stock market, either directly or through retirement accounts and mutual funds.

These changes—deregulation, better technology, and lower costs—worked together to make investing more accessible than ever before. This period laid the foundation for the growth of retail investors, or individual, non-professional investors, who would go on to play a much larger role in the financial markets in the years ahead.

The real revolution, however, came in the 21st century, with the rapid expansion of the internet, mobile technology, and financial education resources. The emergence of online trading platforms—such as Robinhood in the U.S. and Zerodha in India—allowed individuals to create trading accounts, execute transactions, and monitor market movements entirely through digital interfaces. These platforms further reduced entry barriers by eliminating or minimizing brokerage fees, enabling even small-scale investors to participate actively. In India, the landscape shifted significantly with the growth of internet penetration and fintech innovation.

Prior to 2010, retail investing in India remained relatively low, with most individuals relying on traditional avenues like fixed deposits, gold, or real estate. However, with the introduction of platforms like Zerodha (launched in 2010) and later Groww, retail investment began gaining serious momentum. The Unified Payments Interface (UPI) and digital Know Your Customer (KYC) processes further simplified onboarding, allowing users to open Demat and trading accounts from their smartphones in minutes.

The COVID-19 pandemic further accelerated this transformation. Globally, millions of individuals at their homes with free disposable time and digital access entered financial markets seeking both financial growth and engagement. In India alone, over 14 million new Demat accounts were opened in the year 2021, a record-breaking figure that underscored the shift in public interest toward equities and financial markets. This historical progression from exclusive markets dominated by institutions to a democratized environment accessible to anyone with a smartphone lays the foundation for understanding the modern phenomenon of retail investing. It reflects not just a technological shift, but a cultural one, where finance is no longer reserved for experts, but is actively pursued by individuals seeking control over their financial futures.

3. The Tech Revolution: How Apps and Fintech Changed the Game

The development of retail investment during the 21st century is nothing without the development of financial technology (fintech). Technological advances in digital infrastructure, application-based platforms, and payment systems have transformed how people interact with financial markets. Something that used to be paper-intensive, including making phone calls to brokers and incurring expensive fees, is now accessible to anyone who has a smartphone and an internet connection. This change has radically democratized the process of investment, making it more cost-effective, faster , and accessible to people who want to participate.

At the heart of this fintech-driven transformation has been digital investment platforms that have fundamentally transformed the retail investor experience. For the Indian context, Zerodha, Angel One, Upstox, and Paytm Money are some such platforms that came to be the gatekeepers of inclusion in the retail segment, and internationally, players like Robinhood, E*TRADE, and Webull have played the same role. These platforms have utilized plain and simple interfaces to make investing easier, allowing users the ability to trade an array of financial products stocks, mutual funds, exchange-traded funds (ETFs), and even recently cryptocurrencies within a few touches on a smartphone screen. In addition to the basic transaction features, these platforms have offered an array of sophisticated features that, until recently, were the preserve of institutional participants and professional traders. Users have been offered real-time market information, portfolio analysis tools, technical and fundamental analysis tools, screeners, interactive charts, and education tools to enable financial education and well-informed decision-making. By wrapping these features together as part of a cohesive digital ecosystem, such platforms not only lowered the costs and complexity of investing but promoted the financial inclusion of segments of the population previously left behind.

A key disruptor was the introduction of “zero-commission trading”. In 2013, Zerodha introduced the concept in India, removing brokerage fees for equity investments, which heavily reduced the cost barrier for entry. Robinhood followed a similar model in the U.S., creating a wave of interest among young, tech-savvy investors. These platforms shifted the traditional brokerage model from revenue-per-trade to freemium-based services, monetizing through premium features, margin lending, or order flow arrangements. Another major innovation was the “simplification of account opening and KYC (Know Your Customer)” processes. What once took days or weeks to complete in physical form is now done within minutes through digital authentication methods like Aadhaar-based eKYC in India. Paired with “UPI”, users can instantly fund their investment accounts and execute trades seamlessly. The convenience and speed of this process have played a huge role in onboarding first-time investors, especially from semi-urban and rural areas.

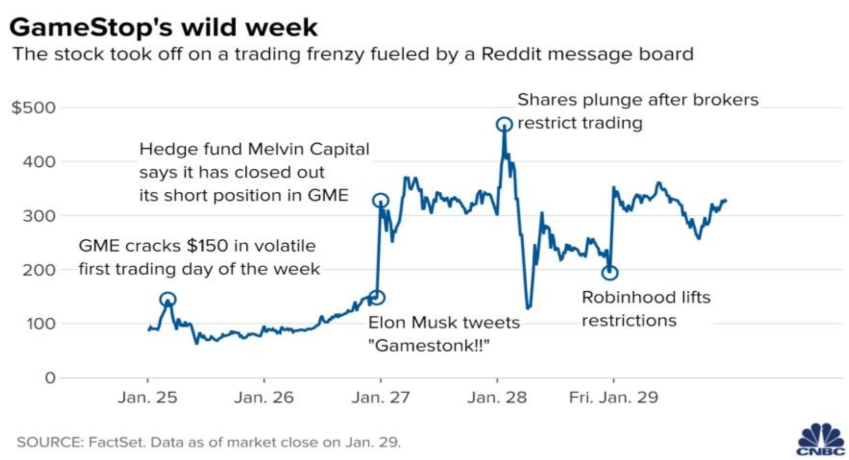
Beyond trading, fintech platforms have also revolutionized “financial education”. Platforms like Angel One, Varsity, Finshots, and YouTube channels like Umar Punjabi or people like Iman Gadzhi bite-sized, engaging content that educates users about everything from basic stock market concepts to advanced technical analysis. This increase in “financial literacy”, especially among Gen Z and millennials, has helped build confidence in self-directed investing. The use of gamification in investment, in the form of celebratory confetti animations when trades are made, a reward system for maintaining streaks of trade, and social sharing of investment activity, has significantly enhanced the user experience to make it all much more interactive and engaging. Whether or not there are criticisms for this model, most notably for what it can lead to in the form of risky investor behavior, there is no question that this has made investment a much more attractive process for young people to make their mark in the financial world.

In short, fintech has established a dynamic investment environment characterized by the drastic elimination of customary entry barriers. The introduction of user-friendly applications, cheap or no-cost trading facilities, and better access to financial capital has enabled more individuals to engage in the financial markets than ever before experienced. Consequently, the development has resulted in an increase in the number of retail investors and has changed the functioning of world markets. What was once a complex and costly process, usually the preserve of rich individuals or professional investors has become easy, cheap, and accessible to anyone with a mobile phone. Individual investors now account for a much larger proportion of the market. Their increasing numbers have shaped market trends, pushed up daily trading volumes, and even changed financial regulation. In short, fintech has not only put investing on the map for millions of individuals but has also transformed the functioning of modern financial markets.

4. Case Studies: GameStop & India's Fintech Boom

- **The GameStop Short Squeeze (U.S.)**

In early 2021, the stock of GameStop (GME), a struggling video game retailer, suddenly became the center of global financial attention due to a surge in buying by retail investors. The movement began on the Reddit forum *r/WallStreetBets*, where users noticed that large hedge funds were heavily betting against the stock by short selling it. In response, thousands of everyday investors started buying up GameStop shares and options, causing the stock price to rise rapidly. This triggered a "short squeeze", where hedge funds were forced to buy back shares at much higher prices to cover their losses, which pushed the price even higher. What started as an online discussion turned into one of the most dramatic events in stock market history, demonstrating the growing influence of retail investors and the power of online communities in shaping financial markets.



During the GameStop event, vast numbers of retail investors ; many of whom were using trading apps like Robinhood—came together in what many called a financial revolution. Using the internet to coordinate with each other and simple technology, these kinds of individual investors were able to defeat big hedge funds and push the price of a heavily shorted stock higher. Some saw this as a win for the "little guy" of investing. But the event also uncovered some real risks and constraints. During the height of the trading bubble, Robinhood and other platforms briefly banned customers from purchasing additional GameStop shares due to liquidity issues. The action sparked mass outrage, with critics charging that these platforms were insulating large financial institutions at the expense of retail traders. The event ignited hot controversy regarding transparency, equity, and if existing financial regulations are prepared to manage swift, technology-facilitated changes in the market.

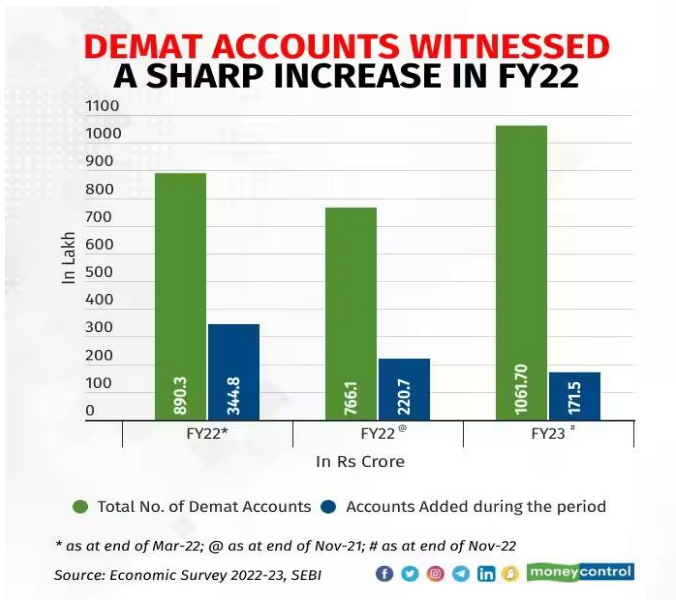
The GameStop saga revealed three critical truths:

- Retail investors have real power when coordinated.

- Technology enables mass movements in financial markets
- Regulatory frameworks are not always ready for tech-enabled disruptions.

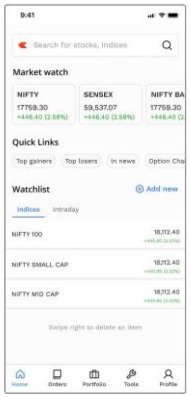
- India's Fintech Boom: Zerodha, Groww & the Demat Explosion

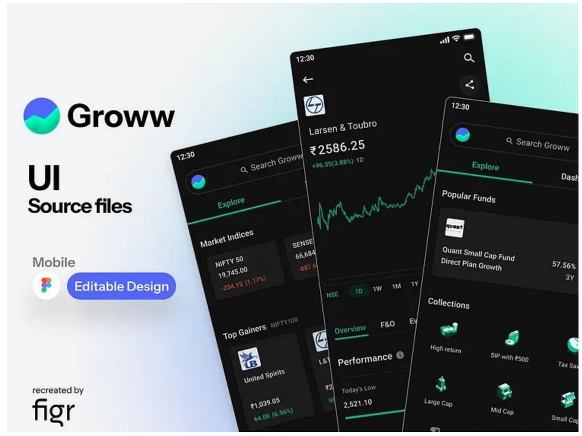
India has seen an explosive rise in retail investing over the last five years, fueled by homegrown fintech platforms like Zerodha, Groww, Upstox, and Paytm Money. The shift became especially noticeable during the pandemic, as millions of new investors, many in their 20s entered the market.



Zerodha's pioneering zero-commission model broke the monopoly of traditional brokers and made investing accessible to smaller investors. Groww, originally a mutual fund platform, expanded into stock trading with a sleek mobile-first experience that attracted tech-native users. These platforms used features like:

- Simplified UIs
- Fast, paperless onboarding (via Aadhaar e-KYC)
- Integration with UPI for instant fund transfers
- Rich educational content





(User-friendly dashboards and investment summaries have made apps like Groww and Zerodha highly popular.)

By FY2021–22, nearly one out of every three new investors in India was under 30, reflecting a generational shift in financial attitudes. The combination of mobile access, low-cost investing, and financial education has transformed a once complex process into something familiar, even fun for Indian youth.

These two case studies highlight two sides of the same coin: retail investors today are empowered by tech, but the outcomes vary wildly based on regulation, culture, and digital infrastructure.

5. Social Media Influence on Investing

In the digital age, social media platforms have become important in shaping investment behaviors, particularly among retail investors. Platforms like Reddit, Twitter, Instagram, and YouTube serve as hubs where individuals share insights, discuss strategies, and sometimes, inadvertently, share misinformation.

- Rise of Finfluencers

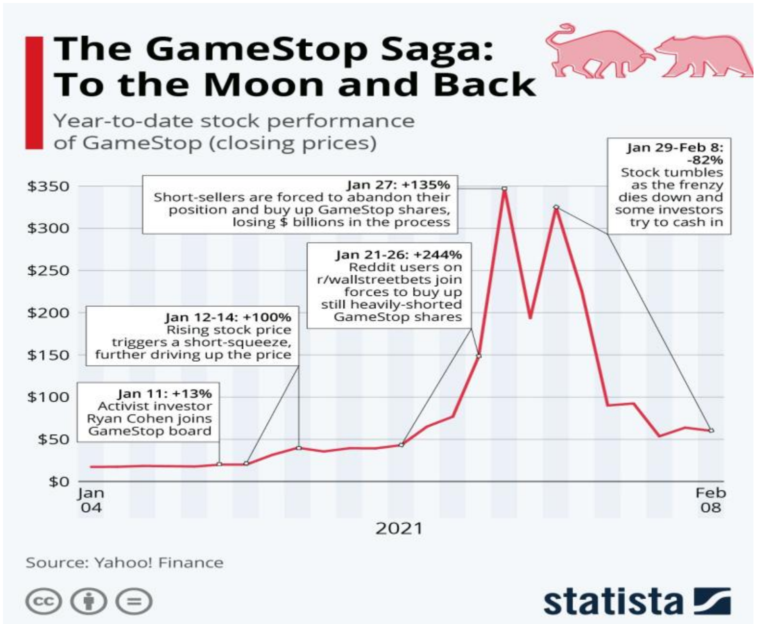
The term "finfluencers" refers to individuals who, often without formal financial training, share investment advice on social media. Their relatable content and personal success stories resonate with younger audiences. However, this trend raises concerns:

- Lack of Regulation: Many finfluencers operate without oversight, leading to the possibility of unverified or risky advice.

- Influence on Young Investors: A significant portion of young investors rely on social media for financial guidance, making them more likely to follow trends instead of making well-informed choices.

- **Meme Stocks and Viral Movements**

As mentioned above , the GameStop saga exemplifies the power of social media in mobilizing retail investors. Coordinated efforts on Reddit's r/WallStreetBets led to unusual stock price surges, challenging traditional market dynamics.



Such events highlight:

- Collective Power: Retail investors, when united, can influence market movements significantly.
- Volatility Risks: Rapid price surges, often detached from company fundamentals, can lead to substantial losses when the hype subsides.

6. The Other Side of Social Media

While social media democratizes information, it also poses risks:

- Misinformation Spread: Unverified claims can lead to poor investment choices.
- Emotional Trading: Viral trends may prompt impulsive decisions, overshadowing fundamental analysis.

Studies indicate that while social media can enhance financial literacy, it also increases the likelihood of speculative behavior among investors.

7. Risks & Challenges Faced by Retail Investors

As Benjamin Graham said "The investor's chief problem—and even his worst enemy—is likely to be himself." While retail investors now have unmatched access to financial markets, this empowerment comes with a unique set of challenges. From emotional decision-making to a lack of financial education, the road for individual investors is often far bumpier than it seems.

- **Market Volatility and Timing Risks**

Retail investors often enter markets during hype cycles or bull runs, introduced by news, influencers, or peer pressure. However, timing the market is very difficult , even for professionals. Many retail portfolios took a hit during post-COVID corrections because positions were entered at market highs without a long-term plan.

- **Behavioral Biases and Herd Mentality**

Human psychology plays a major role in investing. Retail investors are especially prone to:

- FOMO (Fear of Missing Out): Buying into trends late.
- Overconfidence: Believing they can beat the market consistently.
- Loss Aversion: Holding losers too long, selling winners too early.
- Herding: Following online or peer recommendations without research.

These behaviors often lead to decisions based on emotion rather than logic or fundamentals.

- **Limited Access to Information and Research**

Unlike large financial institutions, most individual retail investors don't have access to advanced tools, detailed market analysis, or professional financial advisors. Instead, they often rely on easily available sources of information such as social media platforms, WhatsApp groups, or YouTube videos. While these sources can sometimes be helpful, they often present information that is biased, promotional, or even false. Many influencers or content creators may recommend specific stocks or financial products without proper research or disclosure of their own interests. This can mislead inexperienced investors into making decisions based on trends, hype, or peer pressure, rather than accurate financial reasoning. As a result, retail investors can be more vulnerable to making poor investment choices and suffering losses, especially in fast-moving or volatile markets.

- **High Risk Financial Products**

Many retail investors often don't fully understand the risks involved with complex financial products like options and futures (which are types of derivatives), cryptocurrencies, and

low-priced stocks known as penny or micro-cap stocks. These products can be highly volatile and difficult to manage, especially without proper knowledge or experience. In India, for example, the market regulator SEBI (Securities and Exchange Board of India) found that nearly 90% of retail traders who participated in derivatives trading ended up losing money. This alarming statistic led SEBI to introduce stricter rules in 2023 and 2024 to protect small investors. These new regulations aim to reduce risky behavior and ensure that people understand what they're getting into before investing in such high-risk financial products.

- **Fraud, Manipulation and Regulatory Gaps**

In some parts of the financial market where rules are not strongly enforced, harmful practices like pump-and-dump schemes, fake stock tips, and scam IPOs (Initial Public Offerings) continue to thrive. A pump-and-dump scheme is when a group of people artificially boosts a stock's price by spreading false or exaggerated information, only to sell it at the top and leave regular investors with big losses. Many retail investors fall for these traps, especially when the tips come through social media, messaging apps, or unreliable sources. To fight this, regulators like SEBI in India and the SEC in the U.S. issue public warnings, and sometimes even ban certain platforms or individuals. However, because millions of people are now investing and sharing financial content online, it becomes very hard for regulators to monitor and catch every scam.

That's why it's so important for investors to stay cautious, do their own research, and not blindly follow tips from unknown sources.

8. Regulatory Landscape: SEBI, SEC & Global Oversight

As retail investors have flooded into financial markets worldwide, regulators have had to play safe. From the meme stock chaos in the U.S. to the derivatives boom in India, oversight bodies like SEBI and the SEC are now more active than ever in trying to keep markets fair, transparent, and investor-safe.

India – SEBI Steps In

The Securities and Exchange Board of India (SEBI) is the country's top financial market regulator. With the surge in young, first-time investors, SEBI has had to introduce several reforms to protect them from excessive speculation and shady practices. Key moves include :

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- Tighter Derivatives Regulations: SEBI implemented new eligibility norms to cure reckless retail trading in options and futures, according to Sebi data shows that 9 out of 10 traders were losing money.
- Social Media Surveillance: SEBI has been cracking down on finfluencers and unregistered "experts" pushing stock tips without disclaimers.
- Graded Surveillance Measures: Stocks showing unusual price movements are flagged for potential manipulation, protecting retail buyers from traps.

United States – SEC and Meme Mania

The securities and Exchange Commission (SEC) has faced its own challenges :

- The GameStop and AMC rallies in 2021 revealed major loopholes in market functioning and investor education.
- Platforms like Robinhood came under inspection for halting trades mid-rally, raising questions about fairness and transparency.
- In response to the growing risks faced by everyday investors, the U.S. Securities and Exchange Commission (SEC) proposed several new rules to create a safer and fairer trading environment. One major focus was on "payment for order flow", which is when trading apps send users orders to specific market makers in exchange for money. While this helps keep trading commission-free, it can also raise concerns about whether investors are getting the best deal. The SEC also suggested more transparency around short-selling, where traders bet that a stock's price will fall. Many retail investors don't fully understand how short-selling works or the risks involved. To better protect individuals in fast-moving or unpredictable markets, the SEC proposed stronger safeguards and clearer information, so that retail investors aren't left at a disadvantage during times of high volatility.

9. Global Trends in Retail Oversight

Across the globe, regulatory bodies are now aligning on a few core issues:

- Financial Literacy Mandates: Several countries are pushing for better financial education at school and college levels.
- Finfluencer Guidelines: From the UK's FCA to Australia's ASIC, regulators are demanding more transparency from content creators sharing financial advice.
- Real-Time Monitoring Tools: AI and big data are being used to track suspicious trading activity and social media-driven manipulation.

Basically around the world , governments and regulators are starting to agree on some key ways to improve how money and investing are managed. They want schools and colleges to teach students more about handling money wisely. They're also making rules for social media influencers who talk about money, so people know when advice is honest or just for promotion. Finally, new technology like AI and big data is being used to watch for suspicious trading and prevent people from using social media to unfairly affect the market.

10. Challenges Regulators Still Face

Despite progress, some key issues remain:

- Speed of Virality: Regulators are often too slow to act against fast-moving online hype.
- Jurisdiction Gaps: Many finfluencers operate across borders, complicating legal enforcement.
- Overregulation Risk: Striking a balance between investor protection and innovation remains tricky. Too much regulation could scare platforms and new investors away.

11. Conclusion – The Future of Retail Investing

Retail investing isn't just for a few people anymore now, lots of everyday people are getting involved in the stock market and other investments, it's a movement. Fueled by technology, low entry barriers, and social media, millions of individuals across the world have entered markets with newfound confidence. Platforms like Zerodha, Robinhood, and Groww have redefined access, while Reddit threads and YouTube creators have become the new-age investment gurus. But with this empowerment comes responsibility. The journey hasn't been without bumps—emotional investing, risky products, misinformation, and manipulation are real threats. The GameStop saga, crypto volatility, and the Indian derivatives crackdown are all reminders that the learning curve is steep, and sometimes painful.

Yet, the future remains promising. Regulatory bodies like SEBI and the SEC are evolving, investor education is growing, and new tools are emerging to make markets safer and smarter. If used wisely, technology can bridge the knowledge gap and help build long-term wealth for individuals, not just institutions. So where do we go from here?

The answer lies in balance:

- Access + Awareness
- Freedom + Responsibility

- Innovation + Regulation

Retail investors aren't just participants anymore ; they are a force shaping the future of financial markets. The game has changed. Now, it's about learning how to play it right.

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