Review of Noise: *Living and Trading in Electronic Finace*, by Alex Preda

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The financial industry is often presented as a remote world of busy professionals, excessive bonuses, and elaborate mathematical formulae. But there is a different, less visible part of finance, comprised by the individual traders who buy and sell stocks for themselves, typically at home. These amateurs are closer to the day traders of the Internet bubble than to wealthy retail investors. These retail traders buy and sell stocks with much greater frequently, and they rely for their trades on Web-based interfaces rather than lengthy company reports or dry economic data. Very few retail traders make a profit, but that does not stop many of them from persisting. What, then, are their reasons and motivations?

Alex Preda's Noise trading is a lucid, lively and fascinating portrait of this peculiar corner of modern finance. The book is the outcome of rigorous ethnographic research, combining not only fieldwork in London, New York and Chicago but also active participation in retail trading. The benefits of this extensive work are considerable: Preda has developed a remarkable familiarity with retail traders, uncovering the meaning they attribute to their own activity. Preda has also been able to draw on a wide range of theories, from Goffman's frame analysis to Knorr Cetina's scopic markets, which allowed him to draw striking analogies between finance, sports, and religion. The originality of Preda's findings and his impressive command of the field make this book a valuable contribution to the social studies of finance.

The core thesis of Preda's book is straightforward: while retail trading might conjure up images of solitary individuals sitting in front of five trading screens, retail trading is in fact profoundly social. Consider, Preda notes, how people become a retail trader. Many do so in student-run trading clubs that sponsor trading, train its members, and even fund them with seed capital. As much as these clubs are organized along aspirational business titles such as President, Vice-President, etc., their role is far more important than what their resemblance to a make-believe investment bank would suggest. Student clubs often lead to real jobs in actual investment banks, at least for its top officers. From the outset, then, the existence of such organized entry point into retail trading makes the activity social.

I was particularly impressed by Preda's account of "social trading." The term denotes the numerous new companies that offer Facebook-like interfaces for retail traders. These interfaces not only allow for interaction among traders, they also post public profitability rankings and give members the possibility to copy the trades of highly-ranked "master traders." To benefit from these "copy trades," users pay steep hedge fund-like fees of 20 percent of the profit and 2 percent of the total investment. Social trading is thus certainly not solitary but relational to the point of stratifying, and conducive to a rigid status order comprised of "master traders" and their paying followers. As Preda remarks, social trading also points to a dark side of retail trading, in that it creates a loophole in the regulation barring non-wealthy individuals from directly on hedge funds investing.

Preda's book expands further on this dark but fascinating side of retail trading. Take the broker dealers that provide online platforms for this activity. Their interfaces give traders the impression that traders are competing against other market actors, yet these brokers often take the other side of the customers' trades, leading to a clear conflict of interest: the platform is not just the traders' tool, but also their competitor. Retail traders, in other words, are at a structural disadvantage vis-a-vis their platform, especially because if for any reason the trader appears to be winning, brokers can "change the speed at which a transaction is executed, or delay its execution, or both, or, in some extreme cases, freezing the trading screen so that for a while at least, no more orders can be placed" (p. 123). Indeed, according to one executive that Preda quotes, only 300 of her 10000 retail trader customers trade actively and seem knowledgeable. That amounts to a paltry three percent. As Preda admits, retail traders lose money on average, and econometric studies overwhelmingly confirm this point.

What then, to make of retail trading? Is it a scam? A collective delusion? Here is where Preda departs from the economic literature. One should not, he argues, reduce retail trading to profitability, for that is just its basic frame. People also trade to get a job, to retire from a finance job, or as a chance to imagine a freer life for themselves, liberated from the strictures of dreary day jobs. For the latter customers, retail trading offers a Game of Thrones world of evocative strategies with names like "Thunder Madness" or "Iron Condor" (p. 183). To them, Preda writes, retail trading offers "a combination of sports and religion" (p. 227) that provides freedom that is well within the comfort zone of participants, that is, without the dangers of extreme sports. Preda's conclusion is illustrative of the benefits of a sociological perspective on an empirical domain that has traditionally been exclusive to finance scholars. Preda nails those benefits with a lucid prose that is a delight to read.

There are some potential limitations to the book, but none of them in my view serious. First, I wonder whether Preda is critical enough of this industry. He argues that retail trading is more "as if for real" than "for real" (p. 143). That may be so, but the traders' losses are real, and so are the profits that the brokers make at their expense.

Second, I wonder whether the book's title, Noise Trading, helps Preda convey the powerful insights he has to offer. The expression "noise trading" was coined by the renown economist Fisher Black to designate non-professional and uninformed traders. To Black, such traders were conceptually necessary because if, as he believed, every market participant was rational and well-informed, no one would enter into money-losing trades and there would very little trading. The concept of noise traders, in other words, fixed a contradiction within Black's own mind. But for readers like myself who disagree with Fisher Black, allusions to "noise trading" might not be needed. Luckily, the title does not detract from the fundamental strength of Preda's argument, namely, that retail trading is structured, institutionalized, and "socially very rich" (p. 23).

Like any pioneering study, Preda's ethnography raises as many intriguing questions as it answers. It would be interesting to go beyond the generic category of "retail investors" and examine differences between profitable retail traders (I have come across two in the course of my own research) and unprofitable ones. Future econometric studies may also want to treat age as a key determinant of how traders accord meaning to trading. For twenty-something students, trading seems to be a stepping stone into a banking job, so losses can be construed as learning cost. Retired professional traders, on the other hand, may see retail trading as a basic source of income and skill preservation. Retail trading might be particularly problematic for traders in the in-between age bracket of 30 to 50, neither students nor retired professionals, who are neither learning nor making money from it.

Noise Trading, in sum, has a lot to offer to numerous audiences, not only to scholars in the sociology of finance and economic sociology. Organization theorists, finance scholars as well as behavioral economists will all find invaluable insights in Preda's portrait of retail traders. The book, which contributes and expands the social studies of finance literature beyond high finance, proves that amateurs in finance can be as fascinating as their professional counterparts.