

Education is key to empowering retail traders

Cryptocurrency has a reputation for being a complex field that attracts younger, potentially more impulsive investors. With the likes of Bitcoin losing over 50% of its value in a matter of months, it is more important than ever that trading platforms use education to empower their users to navigate such a volatile market.

Events such as the collapse of Terra's UST stablecoin, in which all but the earliest to exit were saddled with worthless digital dollars, highlight how critical it is for users to understand the risks of their investments. With regulation looming, crypto trading platforms must rebuild trust in the industry by prioritising protection for consumers.

Traders are changing

The collapse of the Terra "stablecoin" gave crypto's critics reason to repeat their accusations of instability. But this ignores the fact that the promise of stability is what attracted many investors to this particular asset in the first place.

Today's crypto traders are more than mere speculators. As the market has grown – attracting 57% of new UK investors, according to *one recent study* – the share attributed to robust stablecoins such as Circle's USDC has grown too. Distinguishing between different types of assets is key for customers of trading

platforms.

In the case of Terra, it is not as if the warning signs were not there. It is just that too few consumers knew what to look out for. Terra relied on its Anchor Protocol's yield reserve to bring stability to the ecosystem. When the Anchor rate did not match the interest rate charged to borrowers, it supplemented the lending APY with the yield reserve.

As early as four months before the crash, the yield reserve was already decreasing, raising the distinct possibility of a run on Anchor when the APY dropped below a certain level. This, of course, is what happened in May, when the vast majority of investors saw the value of their UST nosedive.

Many casualties of the crash were regular retail investors, who had assumed that the stablecoin would remain a reliable store of value. So, while trading platforms cannot recommend specific investments, greater emphasis on education could have helped retail investors choose digital assets that better reflect the risk appetite of each individual.

Regulation gathers momentum

Improving support for retail traders is a critical pillar of the regulatory frameworks now being formulated in several jurisdictions. FCA chief Nikhil Rathi, for instance, recently emphasised that the regulatory body would support crypto innovation without sacrificing consumer protection, while the EU's MiCA rules are set to be the world's first regulatory regime on crypto.

Movement towards regulation has been accelerated by the recent market conditions, with crypto critics calling for immediate and stern regulatory intervention. Given the UK's ambition to become a 'Crypto hub' it is vital a balance is achieved between consumer protection and allowing new revolutionary technologies to flourish without stifling innovation.

One way to help achieve this balance is ensuring that businesses involved in the exchange or distribution of digital assets provide ample educational material built into their platforms, enabling users to truly understand what they are investing in and the risks each asset class carries.

Empowering retail traders

Crypto trading – and tokenised trading of otherwise illiquid assets – gives retail investors, in particular, greater financial freedom and autonomy than they would otherwise be afforded. With this unprecedented access to financial instruments comes the need to improve the accessibility of information around

them.

What this looks like in practice need not be overly complicated. Trading platforms can expand their offering to incorporate educational tools, from tutorial libraries, to safety mechanisms, to news aggregators that allow users to track market performance more effectively.

The most innovative platforms have already taken steps in this direction, equipping themselves, and thus their users, with the best possible education tools. So, as well as enjoying access to markets that have hitherto been exclusive only to privileged insiders and institutions, retail traders can also enjoy the empowerment that comes with being educated about this new breed of investment opportunity.

Retail traders comprise roughly half of the crypto market, and it is high time that they were treated as an equal partner. Unlocking the benefits of better education will be a key step in reaching this goal.

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