

Olivia Morgan
Online Social Media and Marketing
EToro Case
February 9, 2023

EToro Case

Goal: Maximize eToro's value and issue an IPO.

EToro is a popular online socially-based trading platform available in most countries around the world. Founded in 2007 by Yoni Assia originally as a forex platform, the platform quickly gained a large following and by 2008 the platform introduced its unique social features. With the addition of an Openbook trading platform in 2010, the platform quickly became one of the most popular online social trading platforms with over 1.5 million users worldwide. This high level of success in such a short period of time was no accident. Assia noticed that the online investment market had an opportunity to grow tremendously with the addition of social features. Combining his financial knowledge with computer science, Assia came up with a basic plan for eToro. EToro solves the lack of user experience in social trading by making investment open to everyone while bypassing formal investment methods. The platform is generally used by beginners, with a small segment of experienced users who are able to make a monthly salary. However, many questions have been raised on the legality of the platform. As eToro introduced more social features to the trading platform, the confusion increased on what kind of investment decision-maker eToro is and what countries supported the platform. Despite the protections and patents eToro has in place, as eToro allows users to see other users' trading activities and emulate them, US and UK regulators warn Assia to comply with their rules.

Another issue is the Dodd-Frank Act. "This legislation prohibited hedge trading, i.e., the existence of two opposite positions at one time (buy and sell), an inevitable position if a social trader wanted to copy multiple users" (Case). Etoro is in direct violation of this act, causing problems for Etoro trying to expand into the US market. However, eToro holds a number of patents, unlike most Fintech companies. In September 2011, Assia was approved for a patent that described the social Openbook system of eToro as a social-based automatic trading system. Without this patent, Etoro is approved to run as a simple copy trading strategy. However, with this patent, Etoro has the opportunity to grow the social component of the platform, and navigate these complicated regulatory rules of the US. Despite signing a deal with the CEO of LU.com that gave investors access to the platform's copy trading service in China and already receiving seven rounds of funding, eToro is still not prepared to go public.

There are a number of things eToro can do to increase its value and prepare to issue an IPO. First, although there are many regulatory issues involving eToro's social platform and the US, offering the Cadet plan in the US is still legal. Although there are regulatory issues governed by

the state as well, eToro will increase its value and exposure with its introduction to the US market. Etoro must also find a way to gain support from US regulatory leaders. The US market is one of if not the largest, thus launching the full platform within the US will maximize eToro's value and prepare the company for an IPO. Without the support of the United States, the value of eToro can only increase so much more and may lead the company into serious regulatory issues.

In order to achieve this, eToro must crack down on the protection of its users. Although they successfully issue a patent for the platform's social-based automatic trading system, this could be more clearly defined. Etoro only allows users who use their real money to be followed, unlike other successful trading platforms that failed to meet US regulatory guidelines. Assia could apply for another patent regarding the socially-based copy trading service the platform offers. As that patent was issued and approved over 10 years ago, eToro has the opportunity to issue a new patent that specifically covers the platform's social investment strategies and the protection of its users. So much has changed to the platform model since 2011, such as the introduction of Bitcoin and Ethereum as well as other protective features. As the company has already gone through seven rounds of funding, eToro must secure the US market in order to increase its value and go public. Defining the platform and how it makes investment decisions through patenting the eToro's unique approach to social trading will help eToro gain support from US regulatory leaders and hopefully expand into the market.

The competition within social trading platforms has skyrocketed. However, most if not all of these companies are faced with regulatory issues. For example, ZuluTrade was fined by the SEC on three different occasions for issues that could be raised about eToro's platform. One company that has been able to successfully enter the US market is Robinhood. However, since issuing an IPO in 2021, the company has struggled to increase its value and had major setbacks socially with users trusting the platform. Although eToro has over 7 million more users than Robinhood, they have been unable to successfully go public. The financial, social, and economic power is in place for eToro to successfully issue an IPO with the addition of a new patent that clearly defines eToro's social investment strategy and use of cryptocurrency. The bottom line is eToro needs to be approved for full use within the United States in order to maximize the company's value. Hopefully, this patent is enough to gain the favor of US regulatory leaders in order to expand into the US market to drive up the company's value and go public.