Not so 'dumb money'? Constituting professionals and amateurs in the history of finance capitalism

Abstract

This article examines the historically contentious relationship between the financial market and the public as discussed in academic literature, financial journalism, and prescriptive how-to invest handbooks during the late-19th and early-20th centuries. Although financial markets thrive off active public participation, speculating at stock and commodity exchanges has been a sanctioned ritual reserved for a privileged minority. We argue that the financial establishment's intent to control market access through financial entry-barriers (such as exchange membership fees and margin requirements) has been part of a bigger story we need to understand: a history of delegitimating uninitiated 'lay speculators' through the construction of exclusionary narratives about unfit amateur investors and morally corrupt publics. We conceptualise this process as an ongoing and delicate boundary-making exercise contributing to a market participation discourse that has been characterised by a set of reductive binaries, such as those of insider-outsider, professional-amateur, and speculator-gambler. We show, however, that attempts to delineate popular participation in financial markets through these binaries have been complicated by the idea that besides being a force of market instability and collective irrationality, the public was a largely untapped source of liquidity. We argue that today's discourse on public participation in financial markets resuscitates these simplified narratives and propose a more nuanced view of non-professional market participants being both destabilizers and liquidity-providers.

Keywords: financial markets; the public; gambling; speculation; boundary making

Introduction

In 1903 the illustrated periodical *The Century Magazine* published an article titled 'Life "on the floor"' about the daily work of traders, brokers' clerks, and other actors at the New York Stock Exchange (NYSE). The author, Edmund Clarence Stedman, was a journalist, renowned poet, and successful financier, who held a seat at the NYSE between 1865 and 1900. According to an obituary in *The Baltimore Sun*, it was the pressure of necessity that had made the young poet gravitate towards Wall Street, which also meant that his literary work had become more of a leisure activity (N.N., 1908). A biographer described Stedman's life as having been divided between 'the pragmatic world of business and the ideal world of philosophy and culture' (Scholnick, 1977). The article in *The Century Magazine* gives the impression that Stedman most certainly was a man of letters yet, first and foremost, a man of the market. It opens with a story about a time Stedman paid a visit to the stock exchange with a female companion:

> Some years ago, and before the temporary migration of the Broad-street tribes to Bowling Green, I took a gentle kinswoman to the North Gallery of the old Board Room, for a sight of its operatives in their diurnal round – a very gentle lady indeed, full of grace and goodness, but not in the least wonted to the rack of the brokers' world. It was just after "the opening," and a measurably excited market was under way. At first view, and inevitably, she was startled, silenced, fascinated; then, as she grew able to perceive details of the human spectacle below, – to see individual faces and gestures, and to distinguish separate tones within the blend of half a thousand voices, – she began to look appalled… Suddenly her moral training came back to her, and she recoiled with an outcry: "What a terrible scene! What dreadful faces! It cannot be that you have to do with such people, with that ferocious mob. They look insane – no, wicked – and they act like fiends. It is Pandemonium itself!"

> She begged me to take her away; but I would not permit her to leave without further study of the scene. “Let me show you the meaning of it all,” I said. And first I brought her to discern that the Floor was chiefly occupied by groups, each devoted to its own stock or class of stocks, and that, while in not a few of the groups a violent agitation existed, in others there was little noise or commotion. In more open spaces, men were conversing quietly enough. Seated here and there were members calmly reading the morning papers, or figuring upon their pads. Pages were running back and forth; telegraphers were handling their keys; a placid chairman brooded over the scene. There was real order, if superficial chaos. (Stedman, 1903: 1–2)

What Stedman wanted to convey with his anecdote from the visitor’s gallery at the NYSE was the alleged discrepancy between the untrained outsider and the sage professional’s view on the activities happening on the exchange’s trading floor. The institutionalized practices and routinized interactions taking place on the floor were difficult, Stedman argued, if not impossible for the ‘mere spectator’ to comprehend, which was why he courteously insisted on explaining his female companion the meaning of and reason behind it all.[i] Unadulterated mansplaining aside, what Stedman did was to reproduce an, at the time, very popular though somewhat hackneyed yet to this day still often used distinction in markets between the uninitiated outsider (amateur) and the informed insider (professional).

Present market gyrations caused by vast amounts of ‘dumb money’—as small private or retail investments are sometimes unflatteringly called—thrown after certain listed companies has brought the distinction between professional and amateur back into the centre of the popular discourse on financial markets (Cassidy, 2021; Duterme, 2023). There has been a recent flurry of such ‘dumb money’ incidents, with the GameStop debacle (which saw the trying videogame store company’s stock price skyrocket in early 2021) being perhaps the most widely covered in

mainstream discourse (Hansen, 2022; Just and Pedersen, 2023; Paliewicz, 2023). The increasing popularity of gamified online trading platforms for speculative value-generation granting easy market access to the broad public is also pushing the retail investor into the limelight and stirring up debates about barriers to market participation and what the consequences might be if some of these barriers are brought down (Davis, 2018; Preda, 2017; Tan, 2021; van der Heide and Želinský, 2021).[ii] Central to these discussions are concerns about equal opportunity and fairness in financial markets, while other debates revolve around questions of speculative competence, financial knowledge, and professional experience, which are often framed as prerequisites of or as non-institutionalised barriers to sound market participation. Such discussions of fairness are very often entangled with questions about competence and experience. In this article, we argue that, in many respects, these current debates echo historical discussions of the financial establishment's resistance to lay participation—an aversion to the public's desire to try their luck and become active participants in the financial markets—as well as widespread concerns among practitioners, academics and legislators about the qualification or lack thereof of the amateur investor (see, e.g., Cowing, 1965; Ott, 2011).

To demonstrate the importance of this legacy for current understandings of 'lay finance', we unravel the history of two sets of persisting conceptual binaries which have marked the relationship between 'the market' (organised exchanges of the financial establishment) and 'the public' (retail traders and amateur speculators on the margins of the formal exchanges) over the last 150 years: (1) a spatial distinction between 'professionals' and 'amateurs' within stock and commodities exchanges, and (2) a moral distinction between 'speculation' and 'gambling' underpinning those two opposed realms. Through revisiting key debates about public participation in financial markets from the fin-de-siècle, we explore the discursive and structural boundary making efforts made to condition and restrict public participation in

financial markets and legitimise exclusionary measures like margin requirements and exchange membership fees. Following Preda (2009), we conceive of boundary work as a practice of bridging social worlds and coordinating activities that manifest group identities. Boundaries determine the observability and accessibility of a 'domain of activity' and thus functions as a means of legitimisation of such domains (2009: 12-13).

In what follows, we show how the binaries of professional–amateur and speculation–gambling have historically performed important boundary work around the public's inclusion and exclusion from financial markets and, in the process, discursively shaped the amateur investor as a marginalised market actor (Langley, 2008; Preda, 2001). Most of these debates around public participation in financial markets revolved around the assumption that the public lacked the knowledge, experience and competence required to participate on an equal footing with professionals (Cowing, 1965). These financial literacy and competence arguments are still drawn to the fore in debates about financial inclusion and public participation in financial markets (see, e.g., Erturk et al. 2007). In unearthing these narratives, we draw on an extensive archive of prescriptive *how-to* books (detailing how inexperienced investors ought to carry themselves in financial markets), popular financial literature (in magazines and periodicals), and academic literature (from the fields of political economy and economics), all from an Anglo-American context and published between 1890 and 1940. The archive was created by Hansen (2017) as part of a larger research project on the role of crowd theory in financial market discourse.

Our analysis of select discussions from this body of empirical material tracks the rise of the *market public* constituted at once as both an incontrollable speculative force and an underutilised source of liquidity. In doing so, it offers historical context to current market developments such as the explosive growth of retail trading of highly volatile assets like cryptocurrencies enabled by the proliferation of low-to-no fee online trading platforms

(Caliskan, 2023; Preda, 2017). Specifically, we call attention to important historical continuities surrounding the democratization of finance, and argue that the recent, accelerated financialization of society and everyday life (e.g., Komporozos-Athanasiou, 2022; Pixley, 2010; van der Swan, 2014) has further shifted the meanings of financial democracy (Block, 2014; Erturk et al., 2007; Tan, 2021). We conclude with a critical discussion of the perils these shifts pose for both 'included' and 'excluded' publics and evaluate the potential for more radical democratic action as the relationship between markets and publics is being further reconfigured.

Widening the market, controlling the crowd

Around the turn of the 19th century, the fear of the masses had a strong grip on American society, and it had also found its way into the financial markets. While the international advance of socialism raised concerns about mass virulence, it was not so much the politics as it was the psychology of the mass that worried financial market observers and participants. The publication of Gustave Le Bon's *The Crowd* (1895) contributed to the popularisation of crowd psychology and provided a polemicised and genericised language of crowds that resonated widely (Leach, 1992). Vivid descriptions of emotional volatility and sudden eruptions of collective irrationality in crowds of people alarmed observers of the busy and indeed often crowded trading floors of the stock and commodity exchanges (Hansen, 2022; 2017; Stäheli, 2013). The financial establishment was however torn on whether to keep the 'unruly' and 'unfit' masses at arm's length or embrace the market activity and liquidity that those masses provided. This undecidedness still undergirds contemporary discussions of the popularization and democratization of financial markets, in which practitioners, academics, legislators, and regulators remain divided on questions of financial inclusion and exclusion, information and noise, the preservation of market stability, and the concern for the outside public's financial wellbeing (see, e.g., Gabor and Brooks, 2017; Lazarus, 2016; Stäheli, 2003). Such issues raised

in past and present debates around public participation in financial markets are rooted in crucial structural, institutional, political, and socio-economic conditions. Though late 19th and early 20th-century-debates on public participation—like Stedman's defence of trading at the NYSE—ascribed a great deal of importance to perceptions and optics, it mattered a lot through whose gaze the market came in view. The ways in which observers framed market activity thus contributed to the creation of boundaries that legitimised and rationalised certain forms of market action (Preda, 2009).

Established markets of the fin-de-siècle cast the public's view on investment and trading as distorted, standing in stark contrast to the sober and informed view of the market professional. From their perspective, this framing was an effective way of boundary making between amateur and professional traders, articulated is time and again in stark and evocative terms such as those used by financial editor and journalist Isaac F. Marcosson in 1907:

> If you stand in the visitors' gallery [of the NYSE] and see the "Floor" in action, you may think possibly that everybody down there has gone mad…Yet behind all this bedlam the wheels of a great machinery are whirring. (Marcosson, 1907: 101–2)

The legitimisation and expansion of financial markets thus came to rest on a strong narrative demarcation between professional and amateur, and a rationalisation of the social order and mechanics of the market that needed to be shielded from outbursts of irrational energy from unfit crowds of small speculators.

The question of public participation in and its effects on the order and functioning of financial markets were thoroughly discussed by American economist Henry Crosby Emery in his doctoral dissertation *Speculation on the stock and produce exchanges of the United States* from 1896. Emery opened his dissertation stating that the American people were regarded as

the greatest of all speculators and that the world's two greatest speculative markets (produce and stock) were located in Chicago and New York (the CBOT and the NYSE). At the time, nonetheless, only minimal scholarly work had been carried out on the topic of speculation in America, which was something Emery intended to change. One of the reasons why he believed speculation in the U.S. stock and produce markets needed a thorough scientific inquiry was that legislators considered it a contentious and pertinent issue. Futures trading, in particular, had been subjected to ongoing debate among American politicians and numerous regulatory interventions since the early 1880s (Cronon, 1991; Levy, 2012). To mitigate the risk of regulatory intervention on an uninformed or inaccurate basis, Emery's ambition was to enlightening fellow academics and politicians on the actual functioning of speculative markets.

In the introduction as well as in the final chapter of his book, Emery discussed what he thought was a paradigmatic example of 'repressive legislation' on speculation: a bill set to reform speculative markets in Germany. It was put to vote in the German Reichstag in June 1896 and passed without amendments. On 1 January 1897, the new law went into force. The bill was an outcome of an investigation into the speculation carried out on the crises-ridden German stock and commodity exchanges undertaken by a commission appointed in 1892 by the Imperial Government. The Exchange Inquiry Commission's work amounted to a massive four-volume report stating that the speculation on the German exchanges had reached an intolerable level (Lestition, 2000). Though his discussion of the content of the bill preceded the actual law and thus its effects, Emery found the German regulatory intervention interesting yet frightening because it proved, he thought, how disastrously 'stringent governmental control of exchanges' could harm the competitiveness of an entire national economy (Emery, 1896: 230).

Parallel to Emery's doctoral work, Max Weber, who got a professorship in macroeconomics and finance at the University of Freiburg in 1894 (Lestition, 2000; Swedberg, 1999), was writing on the topic of financial speculation with specific emphasis on the Exchange

Inquiry Commission's report. In two contiguous pamphlets – *Die Börse*, published in 1894, and *Der Börsenverkehr*, published two years later in 1896 – Weber did something similar to what Emery attempted to do in his dissertation, namely explore the phenomenon of speculation in stock and commodity exchanges. The pamphlets were published in The Göttingen Workers' Library, an article series supported by and aimed at a Christian Socialist movement (Gane, 2012; Lestition, 2000). With an audience of non-experts, Weber's ambition was to provide an 'initial orientation for those who in their daily lives are relatively distant from the things described here [in the pamphlets]' (Weber, 2000 [1894]: 305). Whereas Emery aimed to educate peers and lawmakers, Weber was thus looking to enlighten an audience that might have an interest but was not well-acquainted with the inner workings of the financial markets.

Despite the slight difference in perceived audience, Weber and Emery both strived to shed light on the phenomenon of speculation to eradicate popular misunderstandings that could sway politicians and consequently inflict unfounded regulatory intervention on the exchanges. Furthermore, they agreed that there existed an intimate connection between what Emery dramatically termed 'the evils of speculation' (1896: 148) and the increasing number of inexperienced and unqualified people commencing on speculative endeavours in the financial markets. In Weber's wording, the 'tremendous expansion of the market', by which he meant the inclusion of the public, had 'numerous serious side-effects' (Weber, 2000a: 305). To Emery, the greatest of all evils of speculation was the 'reckless participation in the market by the outside public' (1896: 187). 'Amateurs', as Emery termed the constituents of the outside public, were, he argued, purely relying on chance for they were neither knowledgeable nor experienced enough to trust their own discernment when it came to financial investing. Their alleged recklessness, gambling inclination and profound lack of experience made the public extra-susceptible to various forms of manipulation. In the same vein, Weber argued that allowing and thus making it possible for the underqualified and unprepared to speculate would 'increase the

public's mania for gambling and opportunities to satisfy that mania on the exchanges' (Weber, 2000 [1896]: 364). Weber further emphasised that the 'small speculator' or 'superfluous parasite', which were terms he used about the constituents of the market public, formed a threat to the very foundation of the exchange as a social organisation (Weber, 2000a: 333). Small speculators were, he thought, completely dependent on external guidance: 'The whole horde of small speculators, armed with practically nothing beyond good lungs, a little notebook, and a pencil' had 'little other choice than blindly to follow the word given "from above"' (Weber, 2000b: 367). If small traders with little to no experience, limited funds and an inclination to gamble constituted the public in the exchange, Weber feared that the continual formation and training of capable and respectable exchange traders, which he saw as the very heart of the exchange organisation, would become impossible. Overall, Weber believed that the prevalence of small speculators in the exchanges hindered

> the formation of a class of exchange traders who would be *more homogeneous* in their preparatory training, their practical education, and their position [on the exchanges] – a class that would be in a position to form a [self-instituted] "tribunal" that could have the energy to educate effectively [the traders] and have its judgments respected. The pronouncements of a tribunal that is composed out of the mishmash that now constitutes our "public" on the exchanges will never have its pronouncements respected; the precondition for that, a unified "concept of honor," is lacking. My own personal opinion, that I state with full reservations (because I think people can rightly question it), is therefore that *honorableness and honesty* is the strength of any social organization. On our, and all other, exchanges, the dominant force is *in fact* the greater quantity of money [to be gained], and it cannot be otherwise. Therefore, one may wish to give the playing field over to it, simply

> *in terms of formal organization*, and make entrance into the exchanges *more difficult* by requiring stronger monetary guarantees; one would not strengthen the position of the large capitalists thereby, but simply make possible for the first time a control over and the emergence of a unified view of what are or are not "honorable business practices" on the exchanges. (Weber, 2000a: 333–334, italics in the original)

Hence, the public was interfering with the order of the market and risked ruining the social fabric of honourableness that Weber believed was keeping the institution of the exchange together. To sustain social order, the exchange ought to remain 'the monopoly of the rich' (Ibid.: 334).

Both Emery and Weber, then, framed public participation as marred by a lack of competence and a high degree of credulousness on the part of the speculating public. Small speculators' lack of experience and appropriate occupational training made them susceptible to guidance and advice, which in turn made them prone to herding. Because of such inexperience, small speculators were perceived as less able to withstand the emotional toll of financial market participation (e.g., Preda, 2009). Especially during times of speculative excitement, the credulousness of the public would shine through and risk inflicting havoc in the markets (Hansen, 2022). As Emery noted, 'the larger the number of irresponsible persons involved, the more does trading at such times [of speculative excitement] partake of the unreasoning nature of all crowd action' (Emery, 1896: 188). He stressed that crowd action was not an attribute of speculation as such, but instead a consequence of the participating public's disruption of the otherwise effective, necessary, and beneficial practice of speculation. Participation of the emotionally susceptible mass of small speculators thus increased the risk of crowd behaviour taking over markets—a thesis that has maintained great popularity amongst mainstream

economic observers to this day. Speculation in and by itself, importantly, was not seen as the culprit here.

Although casting public participation as the greatest of all the evils of speculation and a threat to the stability of markets, Emery did see some advantages of financial inclusion. The risks of crowd behaviour leading to speculative manias were real and had to be mitigated, but besides being a source of disorder and uncertainty, the public was also a source of liquidity. While small speculators did not possess a 'great degree of intelligence or fitness for investigation to the market,' as Emery claimed some overly excited advocates of public participation suggested, they did increase numbers, and numbers were 'a steadying influence in the market' (Emery, 1896: 190). Public participation was thus viewed with a certain ambiguity. Though it increased the risk of excessive speculation and panic, it also steadied markets by providing liquidity and activity. Yet ultimately, Emery was clear about his preference for 'the price-making benefits of speculation' that came 'not from the number of outsiders, but from the activity of those best qualified for speculation' (Ibid.: 191). Showcasing his ambivalence about public participation in financial speculation, Emery concluded that it was near impossible to determine 'at just what point the evil of public speculation becomes too high a price to pay for the advantages of the active market' (Ibid.: 191).

Neither Emery nor Weber thought the problems of market instability had to do with the structures of the financial markets themselves. Rather, market problems arose from outside phenomena obstructing the established market order and the members of the speculating public were such intruding outsiders threatening the order of the market. The accumulation of irrationality that Gustav Le Bon (1895) famously saw as a driving force of violent crowds was really what needed to be kept from spoiling the order of the markets. There seemed to be two roads to take thereon: either financial markets should remain monopolies of the rich or, if the

outsiders were to be included, markets would have to ensure that amateur investors be enlightened and thereby, enabled.

Enlightening the gambling public

Such discussions about the increasing popularity of financial markets overlapped with concerted efforts made to distinguish speculation from gambling. A key outcome of the growing public participation in markets was a blurring of the distinction between what constituted morally corrupt gambling *versus* valuable and legitimate speculation. One attempt to disentangle speculation from gambling was made in a report drafted by the Hughes' Committee, appointed by the governor of New York, Charles E. Hughes on 14 December 1908. The committee was tasked to figure out 'what changes, if any, are advisable in the laws of the State bearing upon speculation in securities and commodities, or relating to the protection of investors, or with regard to the instrumentalities and organizations used in dealings in securities and commodities which are the subject of speculation' (White et al., 1909). The report concluded that speculation 'carried on by persons of means and experience, and based on an intelligent forecast' was legitimate, while the speculation carried out by persons 'without these qualifications' should rather be termed 'gambling' (Ibid.: 4). Whereas the former kind of speculation was considered beneficial to both economy and society, the latter did 'but a small amount of good and an almost incalculable amount of evil' (Ibid.: 3–4). In essence, the committee's conclusion was that competent people speculate, while incompetent gamble.

Basing a distinction between speculation and gambling on the qualifications and competencies of the individuals carrying out these acts, as suggested in the Hughes' Committee's report, was, according to Professor of Economics at Columbia University Carl Parker, highly problematic. Parker's view on the matter was that for speculation to be legitimate, an actual transaction had to take place. When someone speculated in the stock and

commodities markets, they made a contractual agreement to buy or sell property and eventually receive or deliver the property in question with a profit or a loss (Parker, 1911: 151–2).[iii] If a deal involved what Parker called ‘unnecessary risk-taking’—meaning, risk unnecessary to the ‘welfare of the community’—, it should be characterized as gambling (Ibid.: 151). There being an actual transaction taking place without too much risk-taking, according to Parker, was the only viable way to understand speculation as a practice distinguishable from gambling. What the Hughes’ Committee achieved effectively with such a fanciful definition of speculation, was to legitimise speculative traders with profitable investments and dismiss those who failed in their speculative endeavours as mere gamblers. Speculators were deemed to be noble, while gamblers were denigrated as morally bankrupt (Author 2, 2022; Fabian, 1999).

Although Parker was not convinced by the Hughes’ Committee’s distinction between speculation and gambling, he did agree with its proposed solution to the gambling problem, which was to ‘lessen speculation by persons not qualified to engage in it’ (White et al., 1909: 4). Just like Emery, Parker believed that to ‘meet the evil of speculation’ it was necessary to eliminate ‘from the field of speculation those who are unfitted by nature, financial circumstances, or training to engage in it’ (Parker, 1911: 152).[iv] Being unfit for speculation in the financial markets was a matter of lack of competence, wealth and experience needed for coping with the intense competition in financial markets and for processing the insurmountable amount of financial communication that existed in them. Thus, instead of regulatory intervention, Parker saw public enlightenment as a means to mitigate the evils of speculation.

Furthermore, bankers and brokers needed to recognise their responsibilities to clients and be more selective in terms of whose business they would facilitate. They could do so by raising margin payments, which effectively meant making it harder for people of lesser means to enter the market and engage in speculation. Raising the margin requirement would restrict access to markets, but also ensure that those who did participate were financially fit to do so. However,

for those able to put up margin, the ambition was to ensure a certain level of knowing about the basic functioning of markets.

Another consequence of the alleged need for amateur investor enlightenment and enablement was a great expansion of the market for financial advice literature—a genre that, though not new at the turn of the century, would become highly popular around the turn of the 19th century (Crosthwaite et al., 2022; Hansen, 2017; Knight, 2016; Stäheli, 2013). Authors of financial advice or how-to books provided a form of public enlightenment. This, however, was a far cry from what Parker had envisioned: it targeted small investors keen to try their luck in the financial markets despite warnings and unfavourable odds. One of the recurring pieces of advice in late-19th and early-20th-century how-to books was to steer clear of the public, since lay traders had a notoriously bad track record in speculation. This literature did not address the reader as a constituent of the speculating public, although it clearly was the target audience, but as someone standing outside the public, capable of taking advantage of its whims and fancies. *Not* following the trading strategies of peers was considered paramount for those embarking on a speculative venture. This desired maverick position in opposition to the market crowd was formalised in the 1920s as the 'contrarian investment philosophy' that has become part of finance vernacular (Hansen, 2015).

One of several how-to books aimed at enlightening the public about the intricacies and pitfalls of speculation was *The Game in Wall Street, and How to Play It Successfully* from 1898, written by finance professional William E. Forrest Hoyle. The book subscribes to a stereotypical conception of the speculating public as inexperienced, incompetent, ignorant, and generally unsuccessful in market endeavours. Professional speculators were, Hoyle argued, aware of the speculative public's deficiencies and scrupulously took advantage of them. Unlike Weber, Hoyle did not consider professional exchange speculators as an honourable class of economic actors. Contrarily, he presented them as scrupulous capitalists with little regard for

anything but speculative value. To Hoyle, it was not a matter of morals, but one of money and power—of which the amateur had almost none. Professional speculators were able to draw profit from speculative panics, which Hoyle evocatively called a 'disease of the public mind' (1898: 39). The idea that financial markets were under the sway of the public mind – sometimes less flatteringly referred to as 'the mob mind' (Ross, 1908; Sidis, 1895) – and that there existed national differences in terms of the psychology of publics (Le Bon, 1898; Münsterberg, 1904) was an import from crowd theory and social psychology (Hansen and Presskorn-Thygesen, 2022). Correspondingly, Hoyle's advice to amateur speculators was to try to adopt the professionals' strategy and exploit the gullible public. Though amateurs were unable to enter conspiratorial allegiances with the newspapers to manipulate markets (as Hoyle accused professional speculators of doing) they could learn to outsmart the public. The straightforward dictum was, '*sell when the public want to buy*' (Hoyle, 1898: 36, italics in the original).

Due to the notoriously bad judgement of the speculative public, counteracting it was, in Hoyle's opinion, not only the best but also the safest way to speculate. Outsmarting the public was, at the time, more a mantra than it was a concrete trading strategy (Hansen, 2015). In terms of strategy, Hoyle suggested the adoption of and strict adherence to a certain trading system that would help amateurs to move away from *ad hoc* approaches to speculation and tackle it instead in than a systematic manner. Hoyle's recommendation was the so-called 'simple scale system', which presented an easily adoptable alternative to the generally unsuccessful make-do approaches of the speculative public. Using the scale system basically meant 'buying or selling a certain number of stocks at every point or half-point up or down as the prices advance or recede, and then taking profits on every individual transaction when the profit shows' (Hoyle, 1898: 45). The system was low risk, low reward, and could not provide profits that paralleled the amounts professional speculators were making. In terms of the capital involved and size of trades, the amateur traded on a whole other (lower) level than the professional.

Pertaining to the differentiation in *levels* on which speculation was conducted, Hoyle emphasised that the scale system should not be applied in the New York Stock Exchange for the simple reason that entrance fees were too high and lot sizes too large. Instead, he advised amateurs to take their capital to New York's Consolidated Exchange where it was possible to deal in ten-share odd lots; a tenth of the lot size in the New York Stock Exchange (Ibid.: 52–3). Hoyle thus recognised that amateurs and professionals were not playing the same game and, consequently, advocated a somewhat pragmatic approach of settling for the realistic gains and seek market access where it was affordable.

One of the proficiencies of the simple scale system was its 'absolutely automatic and machine-like' character (Ibid.: 44). To capitalise from the mechanistic character of the scale system, those using it had to strive to refrain from having 'an opinion about the market' that could make them deviate from the system and be swept away by the excitement of the market (Ibid.: 44). Although personal opinions should not influence the operation of his scale system, Hoyle insisted that sound judgement ought to. The successful operation of the system required 'brains', not opinions (Ibid.: 45). Sound judgement (brains) was required when figuring out the right time to enter the market. This involved identifying the general trend in the market and enter before the public had excessively driven up the price. In this sense, the systems both helped amateurs to compensate for their relative lack of experience and speculative competence as compared to the professional speculators and functioned as a safety-barrier between the susceptible selves of amateur speculators and the lures of the markets. Hoyle's system, in essence, was meant to help amateurs repress their 'inner urges' to follow the whims of the market crowd (cf. Hansen, 2017; Stäheli, 2013).

Whether in white papers commissioned by legislators, in academic work, or in practical stock market handbooks, the distinction between the outside view of the amateur and the inside view of the professional was vividly used as a discursive mechanism to mount a boundary

between order, competence, and informed judgment, on one side, and inexperience and irrationality, on the other. The division line drawn between the trading carried out in the stock and commodity exchanges and outside—where curb markets and bucket shops facilitated unregulated and noninstitutionalised speculation—, was not merely discursive (Fabian, 1999; Hochfelder, 2006; Michie, 1986). Margin requirements were, for example, effective exclusionary mechanisms too. However, the distinction repeatedly constructed between insiders and outsiders helped simplify markets by designating the speculating public as the probable cause of most cases of market disorder such as excessive speculation or panics (Author 2, 2022). It created a boundary between inside and outside the market, but it also created a boundary within the wide social group of market participants that legitimised the practices of some, while deeming those of other unsound and ultimately immoral.

Today, this same distinction often re-emerges in discussions of financial inclusion and democratisation of financial markets. While small investors are still often labelled as inexperienced, susceptible to all sorts of influences and sometimes downright stupid, the boundary between inside and outside becomes blurrier still. With the current revitalisation of the retail investor community (amplified by increased opportunities for social media-mediated market access via online trading platforms), market-sanctioned narratives about public participation have become harder to control. Not only are markets more fragmented, but access is also less restricted and participation as popular as ever. As a result of this, retail traders are no longer solely cast as irrational and noisy market-distorters, but also as a potentially forceful *mass* capable of moving markets through collective action.

Exclusionary inclusion of dumb money and the rise of the 'retail swarm'

In the wake of the Covid-19 pandemic public participation in markets soared, as lay people without previous investing experience flocked social trading platforms betting on a greater-

than-ever variety of assets (Martin and Wigglesworth, 2021). The type of active retail investor market participation that has squeezed hedge funds selling GameStop, the American cinema chain AMC, and other companies' shares short and, in effect, created massive price swings, is a far cry from the world of passive investing, which is seen as the space of wise investment *par excellence*. Passive investors opt for exchange traded funds (ETFs) tracking a stock index like the S&P500 or bundles of tech stocks comprised in pre-diversified ETFs, insulating thus from much market volatility and resisting the urge to cherry-pick winners. Not unlike Hoyle's simple scale system, passive investing is associated with low risk and steady reward. It constitutes a supposed bulwark against gullibility getting the better of amateur investors, because they are shielded from the seducing gyrations of the market by a diversified risk-dispersed ETF.

While the fear of unruly speculation on part of the market public was real and palpable among many market observers and practitioners in the late 19th and early 20th centuries, the liquidity that popular participation would bring to the financial markets made it difficult for some to altogether exclude the public. Emery would have likely appreciated (and Weber arguably accepted) mutual funds and ETFs as effective vehicles for public participation mitigating the risk of market disorder and taming excessive speculation on part of the public while providing liquidity. The proliferation of these products facilitated an 'exclusionary inclusion' of the small retail investor by granting access yet mediating it through rational portfolio selection and diversification. If the retail crowd vow to do no more than merely passively follow the steady waves of the S&P 500, questions surrounding speculative incompetence, emotional susceptibility or lack of proper funds become less concerning. It is an altogether different story, however, when 'dumb money' pours into individual stocks at a massive rate without the safety valve of automatically being spread out across a diverse basket of assets or names in an index. Then, concerns about the retail segment's lack of speculative

fitness return, and so does the distinction between poised professionals and underqualified amateurs.

The speculating public is a 'powerful engine' without an engineer to direct it, the financial writer Edwin Lefèvre wrote in a *Munsey's Magazine* article from 1901 (Lefèvre, 1901). Lefèvre saw the public as an unruly force that would be moved by the slightest of impressions and, as a result, push the market off balance. The metaphor of the forceful swarm has been recently invoked in attempts to capture the essence of mass speculation phenomena, from the GameStop 'shot squeeze' to the grassroots popularity of everyday investment in highly volatile assets such as NFTs and cryptocurrencies (Komporozos-Athanasiou, forthcoming). It should, however, not be mistaken for the frenzied speculation of a maddening crowd described by the likes of Charles MacKay in his *Extraordinary popular delusions and the madness of crowds* from 1841 (Calhoun, 2021). Irrationality is not the hallmark of this rendition of the swarm; collective action is.

There is a certain degree of political agency attributed to this new retail swarm—an agency that is reflected in a discourse of amateur investor empowerment. Such agency finds articulation in online forums and social media (from Reddit's WallStreetBets forum, to Twitter, and from WhatsApp messaging groups to live trading sessions streamed and discussed on Discord or Twitch), through which this seemingly potent and potentially market-destabilizing swarm is enabled to materialize and exert its collective power on markets. The profile of the retail investor of the 2020s is younger, less clearly defined in terms of traditional political affiliations and often akin player of video games—much like arche-speculators on the top of finance's ladder like Sam Bankman-Fried, CEO of the collapsed exchange FTX crypto exchange, who became known not only for his company's large scale fraud, but also for being an avid gamer of the League of Legends (Komporozos-Athanasiou, 2023). Whether a Gen Zer speculating through swipes on their phone during class, or a conspiracy lover seeking to usurp

big finance from its throne, drawing out the outlines of this new speculator qua political agent is today less straightforward than in more wholesome times for markets.

We might, indeed, be witnessing a new phase of the complex relationship between the financial markets and the speculating public. Whilst critiques of finance have traditionally framed both actors through the lens of an individualist politics of greed, recent speculative events do not always represent gambles of lone speculators. They hint to a kind of speculation that is collectively wagered, and to trading communities coalescing in spaces that are rich in myth, play and imagination (Komporozos-Athanasiou, 2022). It is increasingly this more generative type of speculation, fuelled by ubiquitous access to transient spaces of virtual exchange and spread across traditional (institutional, political) boundaries that lends retail crowds a new power: to not *only* disrupt but to also *define* 'the mainstream' in contemporary finance. Dumb money is not *so* dumb.

In the wake of these shifts, a rearticulation is demanded in order to account for the social and relational dynamics of retail finance. Our historical framing of the relationship between experts and crowds in finance highlighted the limits of approaches that consider 'retail swarms' to be precursors to market democratization. At the same time, however, it has also challenged the reductive focus of critiques of financialization on 'deceived crowds' (seen as led astray by capacious financiers). We have demonstrated that the *double-entendre* of speculative crowds as both a democratic and an irrational force in markets is seeded in age-old debates about retail finance. Discourse on retail investors has been characterized by a significant continuity over about two centuries in this regard. Yet, while the desire to reap the benefits of speculation and the will to imagine oneself as part of a winning crowd has been constant in markets old and new, the gambles of today's speculating crowds reflect creative (and effective) modes of collective action that challenge prosaic framings of speculation, traditional financial infrastructures, and notions of the market. Unearthing the long history of these fraught terms is

vital for understanding the new political challenges posed of market participants and critics alike.

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[i] Stedman’s article was, as much financial writing in the early 20th century, heavily gendered. Though women participated in markets to a much lesser degree than men, their presence in or around markets were often discussed as a disturbing element and a source of emotional whim. Some recent historical research has shed light on the role of female investors in financial markets and not just focused on depictions of women as incapable inducers of irrationality in markets (see, Freeman, Pearson, and Taylor, 2006; Maltby and Rutterford, 2006).

[ii] In its entirety, Robinhood’s mission statement reads as follows: ‘Robinhood’s mission is to democratize finance for all. We believe that everyone should have access to the financial markets, so we’ve built Robinhood from the ground up to make investing friendly, approachable, and understandable for newcomers and experts alike.’ https://robinhood.com/us/en/support/articles/our-mission/ accessed 13 April 2021.

[iii] Parker thus argued that for someone to be speculating and not merely gambling, a transaction between two parties needed to take place based on a contractual agreement. In commodities

markets that meant having to deliver or receive a contractually given amount of a certain commodity. However, commodities were bought and sold as futures contracts and, in speculative dealings, the delivery part of the transaction rarely happened. As is also the case today, most derivatives deals were settled in cash, not delivered commodities. This fact made it trickier to draw a clear distinction between speculation and gambling in futures trading, and it was often mentioned by those market observers and participants who criticized futures trading for being pure gambling (Levy, 2012).

[iv] The term 'unfit', which was often used in the late-19th and early-20th century discourse on speculation and gambling, has clear eugenicist overtones. Eugenics was indeed thoroughly entangled with economics and politics at the time, and some discussions of financial competence were marked by the widely shared belief that some groups of people (divided along gendered, racial, and socio-economic lines) were disadvantaged by nature (Leonard, 2006).