FOREX MARKETS · COPY TRADING STUDY

Copy Trading: Passive Income or Hidden Risk?

A proprietary study of 1,420 retail traders measuring why investors adopt copy trading, how profitable it really is, and the gap between the promise of passive income and actual user experience.

46%	10%	41%
STARTED FOR PASSIVE INCOME	CALL IT RELIABLE PASSIVE INCOME	QUIT AFTER LOSSES OR DRAWDOWNS

TU Research Team

A. Chabaniuk · C. Soni · D. Blystone

Methodology

CAWI · 95% confidence · ±2.6%

Sample

1,420 retail traders

Table of Contents

01 Executive Findings

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TU proprietary research suggests that copy trading is widely viewed as a route to passive income, but user experience tells a more complex story. In a survey of 1,420 retail traders, 46% said passive income was their main reason for starting copy trading, yet only 10% described it as a reliable passive-income strategy. Meanwhile, 41% stopped using copy trading because of losses, high drawdowns, or disappointing results. The findings reveal a significant gap between the expectation of effortless returns and the reality of delegated market risk.

- ✓ Passive income drives adoption. 46% of users named it as their main motivation for starting copy trading.
- ✓ Profitability is inconsistent. Only 24% reported stable profits after six months, while 39% were overall unprofitable.
- ✓ Expectations diverge from reality. Despite passive income being the top motivation, just 10% call copy trading a reliable passive-income strategy.

02 Introduction & Research Questions

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Copy trading has become one of the fastest-growing trends in retail trading. Modern platforms let investors automatically replicate the positions of experienced traders without developing their own strategies. For beginners the appeal is obvious: access to market expertise, reduced time commitment, and the possibility of earning passive income.

- ✓ Adoption is growing. More than one-third of respondents (37%) have used copy trading at least once.
- ✓ Returns lag expectations. 39% of users were overall unprofitable after six months — more than the 24% reporting stable profits.
- ✓ Drawdowns drive exits. Over a quarter of former users (27%) cited excessive drawdowns as a key reason for quitting.
- ✓ Returns outweigh risk in selection. 36% prioritize historical profitability when choosing whom to copy; only 22% focus on maximum drawdown.
- ✓ A perception gap exists. Passive income is the top motivation to start, but only 10% see copy trading as a reliable passive-income strategy.

At the same time, regulators increasingly warn that copy trading can create unrealistic expectations. While trade execution can be automated, risk cannot be delegated. Followers remain exposed to volatility, leverage, drawdowns, and sudden strategy changes. To understand how retail traders actually use copy trading, TU conducted proprietary research into adoption, profitability, risk perception, and user satisfaction.

The study focuses on five key questions:

- Why do traders start copy trading?
- How profitable is copy trading in practice?
- Why do users stop copying traders?
- Do traders view copy trading as passive income?
- What should traders look for when choosing whom to copy?

> **RISK WARNING**
>
> Forex, CFDs and other leveraged products are highly volatile and carry a high risk of losing money rapidly. This research is informational only and is not investment advice.

03 Glossary

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Copy trading

Automatically replicating the trades and positions of another trader through a brokerage or social-trading platform.

Drawdown

The peak-to-trough decline of an account or strategy over a period, used to measure downside risk.

Maximum drawdown

The largest observed loss from a peak to a subsequent low before a new peak is reached.

Risk score

A platform-assigned rating that estimates the riskiness of a trader's strategy, often based on volatility and leverage.

Performance chasing

Selecting traders or assets based on recent strong returns, assuming past performance will persist.

Social proof

The tendency to follow highly ranked or widely copied traders on the assumption that popularity signals skill.

Risk delegation

Outsourcing trading decisions to another trader while remaining fully exposed to the financial consequences.

PAMM

Percentage Allocation Management Module — an account structure where capital is pooled and managed by a single trader.

CAWI

Computer-Assisted Web Interviewing — an online survey methodology for standardized data collection.

04 Institutional Validation

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Copy trading has attracted growing attention from financial regulators worldwide, who increasingly treat it as a service that improves market access while raising new investor-protection concerns.

The International Organization of Securities Commissions (IOSCO) notes that copy, mirror and social trading can broaden access to markets but also create new investor-protection challenges. It observes that many users rely heavily on historical performance when selecting traders and may underestimate risks tied to leverage, volatility, and strategy changes.

The European Securities and Markets Authority (ESMA) has emphasized that copy trading often resembles portfolio-management services and therefore warrants strong risk disclosure and investor-protection standards. The UK Financial Conduct Authority (FCA) warns that many retail investors use copy trading to gain exposure to high-risk leveraged products such as CFDs without fully understanding the risks.

Industry evidence aligns with these findings. eToro's CopyTrader platform was designed to make investing more accessible by letting users replicate the portfolios of other investors, positioning copy trading for those who lack the time, experience or confidence to trade independently. eToro also stresses assessing risk scores, diversification, trading history and performance consistency rather than focusing solely on past returns — closely mirroring TU's finding that long-term outcomes depend on risk management and trader selection, not returns alone.

> KEY INSTITUTIONAL TAKEAWAYS
>
> **IOSCO** flags over-reliance on historical performance · **ESMA** treats copy trading like portfolio management · **FCA** warns on CFD risk via copy trading.

Taken together, institutional evidence suggests copy trading can improve market accessibility but should not be viewed as a guaranteed passive-income solution.

05 Theoretical Framework

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From a theoretical perspective, copy trading combines elements of investing, social networking and delegated decision-making. Several behavioral concepts help explain why outcomes often diverge from what investors expect.

Performance chasing

Investors frequently select traders based on recent returns, assuming strong historical performance will continue. Behavioral finance shows investors tend to overestimate the predictive value of recent success while underestimating the role of market conditions and luck.

Social proof

Most platforms display rankings, follower counts and popularity scores. These metrics can create the impression that widely followed traders are inherently more skilled — yet popularity does not reliably translate into superior risk-adjusted performance.

Risk delegation

Followers outsource trading decisions but remain fully exposed to their consequences. Market risk, leverage and drawdowns cannot be delegated, even when execution is automated.

The illusion of diversification

Many investors assume that copying several traders automatically reduces risk. In practice, diversification only works when traders use different strategies across different markets. Copying multiple traders who rely on similar conditions offers little protection during periods of volatility.

> **INSIGHT**
>
> These four concepts — performance chasing, social proof, risk delegation, and the illusion of diversification — explain why copy trading so often produces outcomes that differ from initial expectations.

06 Methodology & Research Team

TU

To evaluate how retail traders actually use copy trading, TU conducted a proprietary quantitative CAWI study examining user motivations, profitability, retention and risk perception. Unlike regulatory research, which focuses on investor protection and platform oversight, this study analyzed the practical experiences of copy-trading users.

1,420 retail traders	**18–60** age range
6 regions — NA · EU · Asia · LATAM · Africa · EM	**CAWI** survey method
95% confidence	**±2.6%** sampling deviation

Eligibility: respondents with direct experience trading Forex, CFDs, stocks or cryptocurrencies during the previous 24 months.

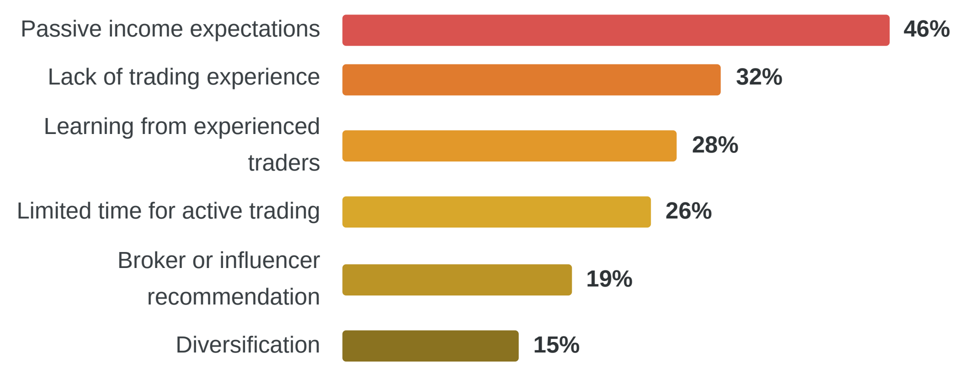
Research team

- **Anastasiia Chabaniuk** — Author · Research design and interpretation
- **Chinmay Soni** — Fact-checker · Data validation & statistical verification
- **Dan Blystone** — Editor-in-Chief · Editorial & methodological supervision
- **A. Mastykin · O. Tkachenko** — TU Research · Data collection and analysis

07 Survey Results

Why do traders start copy trading?

Respondents were asked why they initially started using copy-trading services. While copy trading is marketed as a way to simplify investing, motivations vary — from passive income to lack of experience, time constraints, or the wish to learn from experienced market participants.



Why traders start copy trading

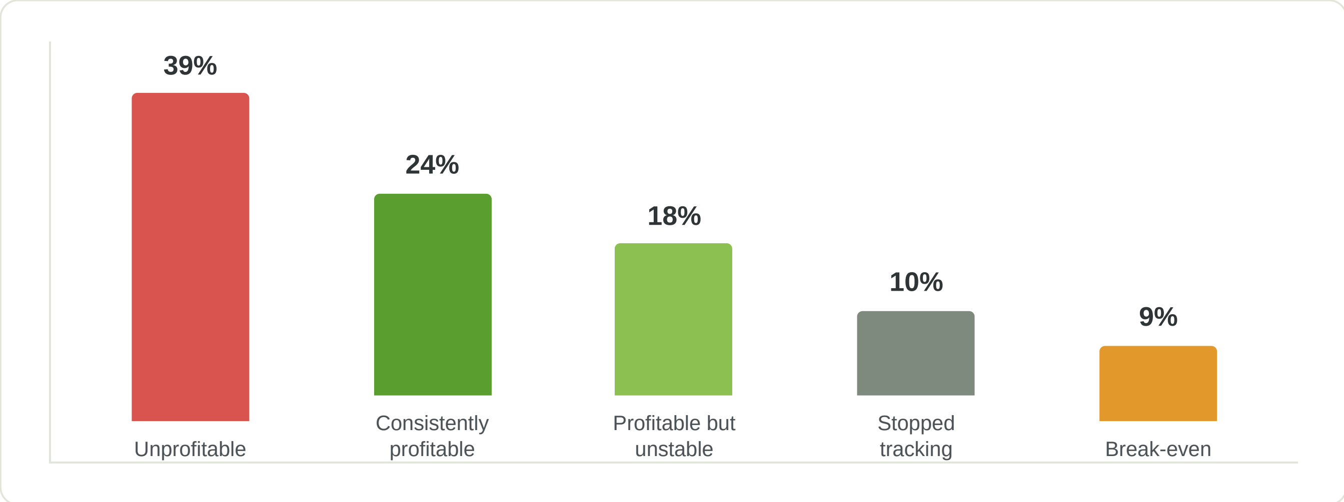
Reason	Share of users
Passive income expectations	46%
Lack of trading experience	32%
Learning from experienced traders	28%
Limited time for active trading	26%
Broker or influencer recommendation	19%
Diversification	15%

INSIGHT

Passive income remains the strongest driver of copy-trading adoption, significantly outperforming educational and diversification motives.

How profitable is copy trading in practice?

Respondents who had used copy trading for at least six months were asked to assess their overall results. Actual outcomes differ markedly from the promise of effortless returns.



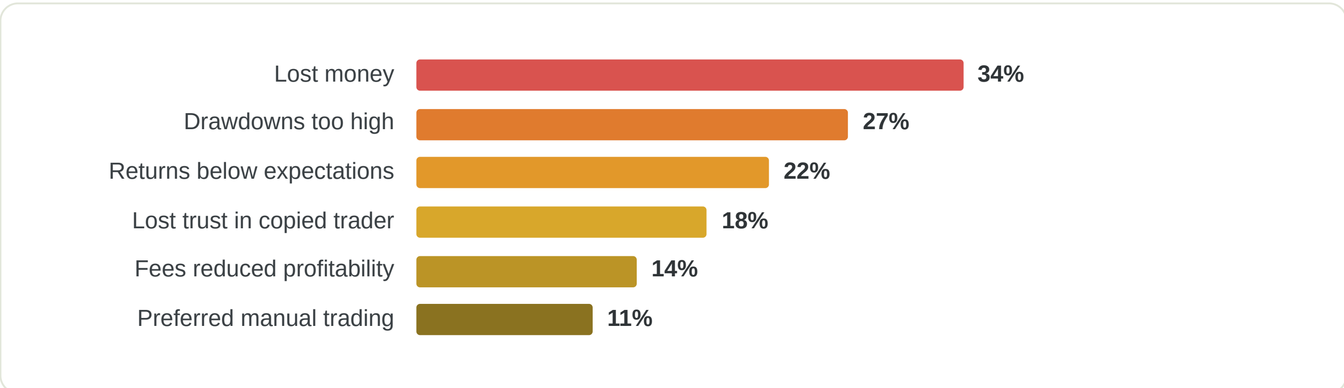
Copy trading profitability after six months

INSIGHT

More users reported losses (39%) than stable profitability (24%), suggesting copy trading is not a guaranteed path to positive returns.

Why do users stop copying traders?

Respondents who previously used copy trading but later stopped were asked to identify the main reason behind their decision.



Why users stop copy trading

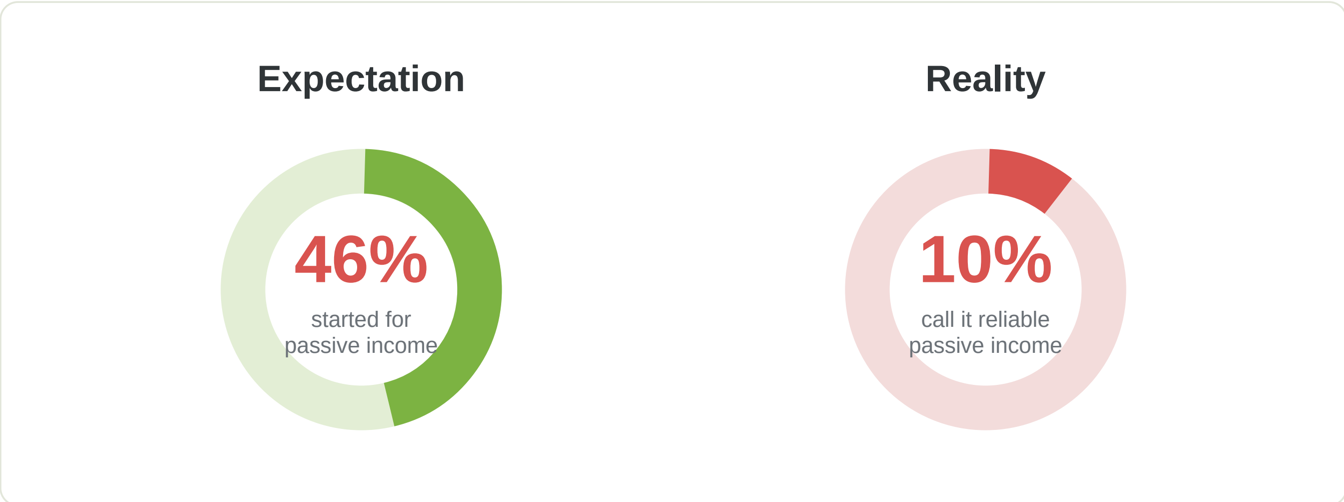
Reason	Share of former users
Lost money	34%
Drawdowns too high	27%
Returns below expectations	22%
Lost trust in copied trader	18%
Fees reduced profitability	14%
Preferred manual trading	11%

INSIGHT

Financial performance remains the dominant reason traders abandon copy-trading services — lost money and excessive drawdowns together account for the majority of exits.

Do traders view copy trading as passive income?

Although passive income is the leading motivation for adoption, it is unclear whether users still view it that way after gaining experience. Respondents were asked how they personally classify copy trading today.



Expectation at adoption vs. how users classify copy trading today

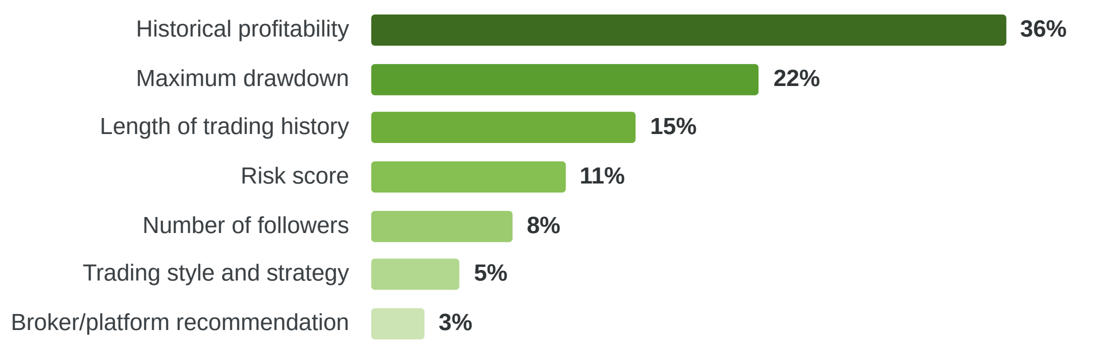
How traders perceive copy trading	Share
Passive income if risk is managed	38%
Automated active trading	31%
Mostly speculative activity	21%
Reliable passive-income strategy	10%

INSIGHT

Only one in ten respondents views copy trading as a reliable passive-income strategy — despite passive income being the main reason users initially adopt the service. This perception gap is the central finding of the study.

What should traders look for when choosing whom to copy?

Selecting the right trader is arguably the most important decision in copy trading. Respondents were asked which factor they prioritize when choosing a trader to copy.



Most important factor when selecting a trader to copy

Factor	Share of users
Historical profitability	36%
Maximum drawdown	22%
Length of trading history	15%
Risk score	11%
Number of followers	8%
Trading style and strategy	5%
Broker/platform recommendation	3%

INSIGHT

Most copy traders prioritize historical returns when selecting whom to follow, while far fewer focus on risk metrics such as drawdowns or risk scores — the very factors that most influence long-term survival.

08 Practical Implications

TU

The findings suggest copy trading should be viewed as a tool rather than a guaranteed income strategy. Several practical conclusions emerge from the research:

- Copy trading does not eliminate market risk — followers remain fully exposed to losses.
- Historical profitability alone is insufficient when selecting traders.
- Diversification across multiple providers may help, but only with genuinely different strategies.
- Drawdown management is often more important than maximizing returns.
- Followers should regularly monitor copied strategies and performance.
- Copy trading can support financial education but should not replace it.
- Position sizing remains critical regardless of who makes trading decisions.
- Investors should maintain realistic expectations regarding profitability.

Platform selection also plays an important role. Features such as risk-scoring systems, trader transparency, performance analytics, diversification tools and investor-protection measures significantly influence how effectively users manage risk. For investors considering copy trading, choosing a platform with robust risk-management features may be just as important as selecting the right trader to follow — platform choice is itself a form of due diligence.

09 Conclusion

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The research confirms that copy trading is widely adopted for the wrong expectations. 46% of users start it for passive income, yet only 10% ultimately consider it a reliable passive-income strategy; 39% end up unprofitable after six months and 41% abandon it after losses or drawdowns. The promise of delegating effort collides with the reality that risk cannot be delegated.

The practical implication is direct: in copy trading, the marginal value of chasing historical returns is small; the marginal value of risk-aware trader selection and disciplined position sizing is large. Treating copy trading as an actively monitored allocation — judged on drawdowns, strategy diversity and risk scores rather than headline returns — addresses each weakness this research identifies. Experience eventually instils that discipline, but at the cost of losses incurred along the way.

10 Data Sources & References

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