



INFLUENCED INVESTMENTS: HOW SOCIAL MEDIA FININFLUENCERS SHAPE THE FINANCIAL CHOICES OF RETAIL INVESTORS

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Abstract:

Social media influencers has played a key role on how retail investors are making investment decisions, especially with the financial domain. The impact of financial influencers typically referred to as 'finfluencers' on retail investors investment behavior in North Kerala is studied in this study. The study investigates the impact of these social media figures on psychological factors, cognitive biases and decision making patterns affecting these social media posts to reshape financial risk tolerance, asset preferences and overall investor confidence. The research employs a descriptive research design using North Kerala survey data from 403 respondents to assess the degree of this influence, and to test hypotheses related to the cognitive biases and behavioral shifts. Building on the already scarce empirical work on the impact of financial influencers, this study offers important implications for both the retail investors as well as the regulatory bodies.

Key Words: Social Media Influencers - Behavioral Finance - Retail Investors - Investment Decisions

Introduction:

Over the past few years, social media has established itself as a serious, and quite often the first, channel for dispersing financial knowledge and provide investment guidance to retail investors. Financial social media influencers, most popularly known as 'finfluencers' have grown incredibly popular on platforms such as You Tube, Instagram and Twitter. From stock market analysis to personal finance tips, these influencers are shaping the way the audience views and takes actions upon financial things. With more investors, especially younger ones, relying on these platforms to learn about how to invest, the influence of finfluencers has turned heads both in the field of behavioral finance and in its as yet untested ethical implications.

Behavioral finance looks at the psychological forces driving the flow of investments, and finds overconfidence, herding and loss aversion to be key factors determining investment behavior. So social media influencers give them an opportunity to bias these decisions by helping them to frame financial decisions in a way that resonates emotionally with their audiences. However, there is relatively scant empirical evidence into to what extent influencers in situations like this affect how retail investors in these relatively less researched areas like North Kerala make their investment decisions. In an effort to fill this gap, this study examines the role of finfluencers in the investment decisions, risk taking and the overall financial confidence of retail investors in North Kerala. This research explores psychological mechanisms through which social media shapes financial behavior, and in so doing, hopes to gain valuable insights for investors, policymakers and financial educators alike, by extending their knowledge about cognitive biases and decision patterns.

Review of Literature:

Social media influencers in finance play a big role marketing the products and present their takes on the companies to the retail investors. These "finfluencers" research suggests that the content they share influences risk tolerance by promoting speculative investments and initiating riskier trading behaviors (Deloitte, 2022). This tendency is particularly prevalent with younger investors, which means they lack formal financial education and are more easily swayed by easily accessible informal guidance (like on Instagram or YouTube) provided on platforms like Instagram and YouTube (Financial Planning Association, 2021). Another large influence of social media is the amplification of cognitive biases such as herding. The Amundi Research Center study finds how social media turns retail investor information into 'echo chambers' where retail investors read information that reinforces their existing beliefs and thus biases such as overconfidence and a strong disposition effect (Amundi Research Center, 2021)

Additionally, social comparison on social media can result in greater risk taking on part of investors who hope to perform like the perceived successes of others, while ignoring fundamental risk thresholds (Barber & Odean, 2008). Just as with finfluencers, studies show that followers may also inadvertently begin feeling a false sense of security through finfluencers' attempts to simplify complex financial products, leading to overconfident decision making (CFA Institute, 2022). In addition, the use of Social media influencers for critical investment decisions that takes over from the informal advice

channels. Luo et al. (2017) say that investors nowadays are more likely to rely in what sentiment on social media says than standard financial analysis, using the opinions of influencers as key factors in major financial business decisions. The reason for that trend, according to Deloitte, is that social media platforms that offer financial advice are more relatable and accessible than options out of traditional avenues (Deloitte, 2022).

Statement of the Problem:

While more and more financial social media influencers appear at the scene to influence retail investors' behaviors, empirical study on the interaction between financial social media influencers and retail investors is still limited. Anecdotal evidence that influencers can affect investment decisions is abounded but few have rigorously studied it. Taking this problem at face value, this lack of data is especially urgent now that there is rising dependence on social media as a source of financial direction for younger, less experienced investors. Therefore, it is important to understand how far the mechanism to the extent influencers affects retail investor decisions, in particular as risk tolerance affects and investment biases.

Research Gap:

Although there has been much work on how traditional media influences behaviour in finance, very little research has been done on the precise effect of social media influencers in finance. However, very little had been written on the intersection of social media influence and retail investor behavior and most studies in behavioral finance have focused on either institutional factors or individual psychological tendencies. This study seeks to close this gap by empirically establishing how financial influencers influence retail investor decision making with respect to cognitive biases and behavioral shifts in North Kerala.

Research Questions:

- How do financial social media influencers affect the risk tolerance of retail investors in North Kerala?
- What are the key cognitive biases activated by exposure to financial influencers among retail investors?
- To what extent do retail investors rely on social media influencers for making critical investment decisions, such as asset allocation?

Objectives:

- To assess the influence of financial social media influencers on the risk tolerance levels of retail investors.
- To identify and analyze the cognitive biases influenced by influencers in the investment decisions of retail investors.
- To evaluate the reliance of retail investors in North Kerala on social media influencers for critical investment decisions.

Hypothesis:

- H_{01} : Financial social media influencers do not significantly affect the risk tolerance of retail investors.
- H_{02} : Cognitive biases, such as herding and overconfidence, are not more prevalent among retail investors exposed to financial influencers on social media compared to those who are not.
- H_{03} : Retail investors who follow financial influencers do not rely more on their advice when making investment decisions compared to those who do not follow such influencers.

Research Methodology:

To systematically investigate the relationship between social media influencers and retail investors' financial behavior in North Kerala, this study utilises a descriptive research design. Data on investor behavior, social media engagement and investment decisions will be obtained through a structured survey. Stratified random sampling will be used in sampling. The sample will be stratified by age, gender and income level based upon North Kerala's population so that there is adequate representation of all demographic segments in the sample. To achieve 95\% confidence level and a margin of error of $\pm 5\%$, a sample size of 403 respondents has been determined. Since this technique saves generalizability of results since this technique captures the diversity within the population of retail investors in North Kerala thereby avoiding sampling bias and data being collected about only a part of the total population, this technique is justified.

Data Analysis:

Three statistical tests were used to analyse the data and determine the effect of financial social media influencer on behavior of retail investors. Secondly, an Independent Samples t-Test was used to see if there was a true difference in risk tolerance of investors who are exposed to influencers versus those that should not be. Second, we used a Chi Square Test of Independence to compare the frequency of cognitive biases (herding and overconfidence) between these two groups. Secondly, a Point-Biserial Correlation was performed to test for a relationship between being exposed to influencers and following their advice and demonstrated a very small but significant positive correlation.

Table 1: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Risk Tolerance	Equal variances assumed	12.86	0	-4.188	401	0	-0.457	0.109	-0.672	-0.243
	Equal variances not assumed			-3.645	103.251	0	-0.457	0.125	-0.706	-0.208

Interpretation:

Independent Samples t-Test results on risk tolerance among retail investors exposed to financial social media influencers and those not are statistically significant. The groups have unequal variances, as seen by the p value of the Levene's Test for Equality of Variances (The p value was .000). This is why we take the results of t-test, from "Equal variances not assumed" row. We reject the null hypothesis when we have a t value of -3.645 and p value of .000 as exposure to influencers has a significant effect on risk tolerance. In particular, the corresponding mean risk tolerance is 0.457 units lower for individuals exposed to influencers, with a 95 per cent confidence interval ranging from -0.706 to -0.208. This means that retail investors following influencers is a group of more risk averse people.

Table 2: Chi Square Table

Variables	Pearson Chi-Square Value	df	Significant Value
Exposure Groups * Herding Bias	283.476	1	0.000
Exposure Groups * Over Confidence Bias	347.438	1	0.000

Interpretation:

Results of the Chi Square Test of Independence demonstrate that exposure to the financial influencers on the social media correlates highly significantly with the presence of the specific cognitive biases of the retail investors such as herding and overconfidence. Herding values Pearson Chi Square of 283.476 with p of .000; overconfidence values Pearson Chi Square of 347.438 with p of .000. Both p values are smaller than 0.05, so we reject the null hypothesis for each bias. So it means that exposure to other financial influencers will be strongly related to other biases, such as herding and overconfidence biases among retail investors. If investors follow financial influencers on social media, these findings indicate that the end up exhibiting these biases, which could then impact their decision making and risk profiles.

Table 3: Correlations

		Exposure to Influencers	Reliance on Advice
		Pearson Correlation	Pearson Correlation
Exposure to Influencers		1	.199**
	Sig. (2-tailed)		0
	N	403	403
Reliance on Advice		.199**	1
	Sig. (2-tailed)	0	
	N	403	403

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation:

Point Biserial correlation analysis results show that Exposure to Influencers and Reliance on advice is statistically significant positively correlated with $r = 0.199$ and $p = 0.000$. We achieve significant correlation at the 1% level (since p value is less than 0.01) which means there is a meaningful relationship between the two variables. However, it is worth noting that the relatively low correlation coefficient (0.199) indicates that financial influencers do, in fact, provide some benefit; specifically, the ones who are in reach to retail investors impact those retail investors more when coming to the decision, regardless of whether they read the financial influencer's indication or not. This finding is consistent with the hypothesis that exposure to financial influencers leads to greater reliance on their advice, although it is a small effect size.

Findings of the Study:

Analysis of the data shows some key findings regarding the influence of financial social media influencers on retail investors. The mean difference is -0.457 and t-test results show that the investors exposed to influencers have significantly lower risk tolerance compared to the exposed to no influencers. It shows that retail investors are more cautious or risk averse because they are exposed to financial influencers. Furthermore, the Chi-Square Test of Independence results exhibit a strong relation of exposure to influencers and the prevalence of cognitive biases. In particular, Chi-square values of 283.476 ($p < 0.01$) and 347.438 ($p < 0.01$) show that investors following influencers are much more likely to exhibit herding and overconfidence. The results from the Point Biserial Correlation finally reveal a small but significant positive correlation ($r = 0.199$, $p = 0.000$) between exposure to influencers and their reliance on advice given. Overall, the effect is quite small meaning that investors who follow influencers are more likely to rely on these same influencers' advice for their investment decisions.

Suggestions:

Since these findings, it is also suggested that the focus of financial literacy programs should mainly cover the risks of following unregulated financial advice through social media, particularly to inexperienced investors. Financial influencers may be seen as a new type of key person who regulatory bodies could monitor more closely in order to make sure they give transparent and true information. Also, financial advisors and educators should prompt retail investors to scrutinize advice offered by social media based sources and to think about how cognitive impulses way including herding and overconfidence may sway their monetary choice making.

Limitations of the Study:

Some limitations of this study should be acknowledged. Second, it does not extend beyond the borders of geography, North Kerala that may not be generalizable to all other geographies or populations. Second, the analysis is based upon self-reported data that may be subject to response biases. Third, the magnitude and direction of this relationship is influenced by a variety of other factors, beyond general social media use, and was not controlled separately. In addition, while substantial associations were seen, causal links are not definitely established, because of the study's cross-sectional properties.

Scope for Future Studies:

Future research might expand further on these findings to look at how the financial social media influencer might affect different groups within demographic rooms and place at large. Exposure to influencers, or their content, would be examined to see if it has a permanent effect on people's behavior in the stock market. In addition, studies could explore on which platforms or which types of the financial content might have different impacts on risk propensity and cognitive biases. Additional research on which individual characteristics (e.g. financial literacy level) moderate these effects would also be useful.

Conclusion:

Finally, we conclude that exposure to financial social media influencers leads to lower risk tolerance, heightened cognitive biases and reliance on advice of financial social media influencers among retail investors. Taken together these results highlight the importance of social media becoming a more known phenomenon, and its undetermined ability to have an effect on financial choices and behaviors. With more and more of financial information coming from social media, retail investors, educators and regulators will need to pay attention to and tackle those risks as we move forward to encourage healthier investment practices.

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