# PSYCHOLOGICAL IMPACT OF SOCIAL MEDIA ON INVESTOR CONFIDENCE

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**KEYWORDS**
Social Media, Investor Confidence, Behavioral Finance, Cognitive Biases, Investment Decision-making, Financial Psychology, Market Sentiment, Overconfidence Bias, Herd Mentality, Risk Perception

**ABSTRACT:**
The rise of social media has significantly transformed the investment landscape, influencing investor behavior and confidence. This study explores the psychological impact of social media on investor confidence, examining how social media platforms serve as a source of market information, investment sentiment, and decision-making guidance. Using a mixed-method approach that combines qualitative and quantitative data, this research analyzes how cognitive biases such as overconfidence, availability bias, and herd mentality shape investment decisions. Findings indicate that while social media can enhance investor awareness and confidence through real-time updates and expert opinions, it can also lead to impulsive decision-making and increased susceptibility to misinformation. The study highlights the need for financial literacy and critical thinking in evaluating social media-driven investment insights. The implications of this research extend to individual investors, financial institutions, and policymakers aiming to regulate the role of social media in financial markets.

## Introduction

People's interactions and communication with one another have been completely transformed by social media. Its impact on other facets of life, such as the investment industry, has also been noteworthy. Social media sites such as Facebook and Twitter have developed into effective resources for investors in the last several years to communicate their thoughts, share information, and obtain intelligence. For networking, information exchange, and communication, social media has become a vital instrument. People may now use it as a forum to share their experiences and thoughts. Within the financial industry, social media has significantly influenced the actions of investors. Real-time news, market data, and expert comments are just a few of the many resources available to investors today. Investors can interact with one another on social media sites, exchange ideas, and gain knowledge from one another.

## Research Aim

The aim of the study is on analysing the psychological impact that the social media has on the investorconfidence level, their capabilities of investing and their behaviour opinion towards the investment.

## Research Objectives

The core objectives research will be addressing includes the following as:

1. To analyse the psychological impact of social media on investor confidence.
2. To study the investor confidence level.

## Research Questions

The questions research will be addressing on includes the following as:

1. What is the psychological impact of social media on investor confidence?
2. How the investor confidence level varies with the opinions shared on social media?

## Literature Review

According to Nguyen, et. al, (2020), Financial activity is based on investment decisions, which need serious study and investigation. Behavioural finance theory provides a critical framework for understanding the reasons behind people's financial decisions. This theory explains how psychological variables and cognitive biases affect investment and other personal financial decisions. If investment management businesses and individual investors could get a better understanding of the behavioural biases that drive trading decisions, they might enhance the possibility of improving returns while minimising risk (Nguyen, et. al, 2020).

Trivedi and Sama, (2020), mentioned that the psychological research show that humans make decisions influenced by heuristics and biases. The primary goal of behavioural finance, a science that combines psychology with the study of money, is to understand the bounds of rational decision making (Trivedi and Sama, 2020). As a result, by merging theories from traditional finance with those from behavioural and cognitive psychology, it hopes to provide light on why individuals make illogical financial decisions (Nguyen, et. al, 2020). When attempting to make sound investment decisions, investors confront a multitude of cognitive biases that may influence their asset appraisal and selection. The availability bias and the overconfidence bias are two of the most prominent cognitive biases in this context.

According to Naseem, et. al, (2021), the discipline of behavioural finance investigates the many cognitive biases that impact financial investment decisions. The phrase “availability bias” refers to how individuals tend to give more weight to data that is either easily recalled or readily available. According to the study’s findings, all cognitive biases influence risk propensity, which impacts investing performance (Naseem, et. al, 2021).

Weixiang, et. al, (2022) study, demonstrate that an investor’s profitability is exactly proportional to the existence of all cognitive biases. When making investing decisions, availability bias may cause people to focus excessively on easily accessible news or events while ignoring other significant aspects. Overconfidence bias refers to an individual’s tendency to inflate his or her own talents, and it might impact how investors assess possible gains and losses (Weixiang, et. al, 2022).

According to Duz Tan and Tas, (2021), people respond differently to earnings and losses. They respond more strongly to losses than earnings of same amount. Overconfidence bias and the tendency to underestimate risks may prompt investors to exercise caution when making investing decisions in order to prevent losses (Duz Tan and Tas, 2021).

Heidari, et. al, (2021), mentioned that behavioural finance also includes collective conduct, in which people blindly follow herd or market patterns. One probable reason is availability bias, which occurs when investors make judgements based on readily available information or news (Heidari, et. al, 2021).

Behavioural finance provides insight into how cognitive biases, such as overconfidence bias, impact investors’ risk and return calculations. Being overconfident When people are biased, they tend to see risks in a negative way, which may impair their ability to make sensible financial decisions (Heidari, et. al, 2021). Investors who understand behavioural finance theory are better equipped to identify and overcome cognitive biases such as overconfidence and availability bias.

Duz Tan and Tas (2021) research suggests that overconfidence is a cognitive bias that influences investing decisions and performance. This bias presents itself in several ways, including the investor’s perception of risk (Heidari, et. al, 2021).

## Research Methodology

The research methods include all the applied tools, techniques and methods in the research to attain the research valuable outcomes.

## Data Collection

The data collection is done with the mixed data collection. The secondary data sources which include the data collection from already published sources, researches, journals and articles linked with the study. This data sources will include the research work, aligning with the research purpose and attain the outcomes of the study. All the sources will be linked with the social media influence and the ways in which they can pose an influence on the investor’s opinion, and their confidence.

The primary data collection includes the data collection with serving the survey questionnaire online with a sample size of 100 to understand their trends towards the psychological impact that social media can lead on the confidence of investors.

## Data Analysis

The data analysis is done with mixed approach, quantitative and qualitative approach of study, which make the analysis about the social media influence on the confidence level in the investors. The investor opinions are highly driven by social media, and thus the analysis indicates that the study is about the confidence level in the investors, about the decision in the investment plan, and their opinions.

**Research Ethics**

The research data is collected with ethical means, with reliable means and validated sources with the research code of conduct. The research has worked ethically by researcher following all the research outcomes. The research is done with no harm to any specific person or group of people, and is unbiased.

**Analysis and Discussion**

***Analysis***

1. **As an investor, you have been highly influenced with your investment decision confidence level with the social media, and the opinions of the people. Do you agree?**

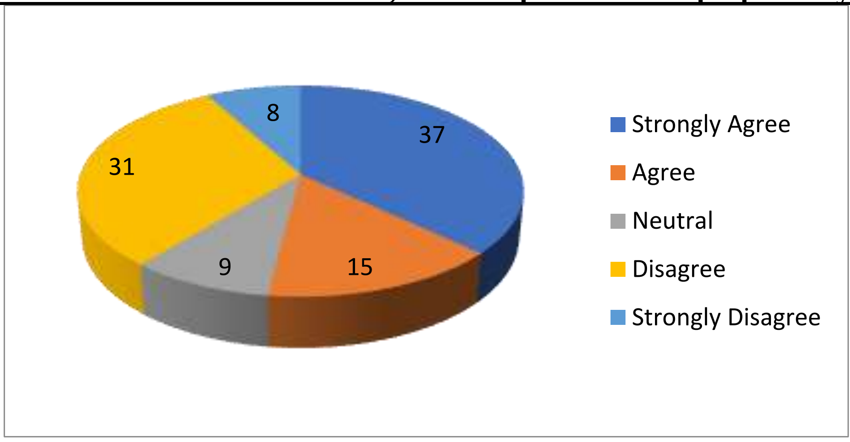


***Figure 1***

***Self-Created***

From the above graph, it is inferred that 37% have strongly agreed, 15% have agreed to this, while 39% have disagreed to the statement and the rest 9% have neutral opinions to this. The high influence is driven with the investment decision, and having the high confidence level with social media. The opinions are mixed towards this, while more are agreeing on the social media influence is high on the opinions of the investors and can lead to a direct influence on the decisions of investors.

2. **If I have got any positive news on social media, then you do not feel more confidence towards my investment. Do you agree?**

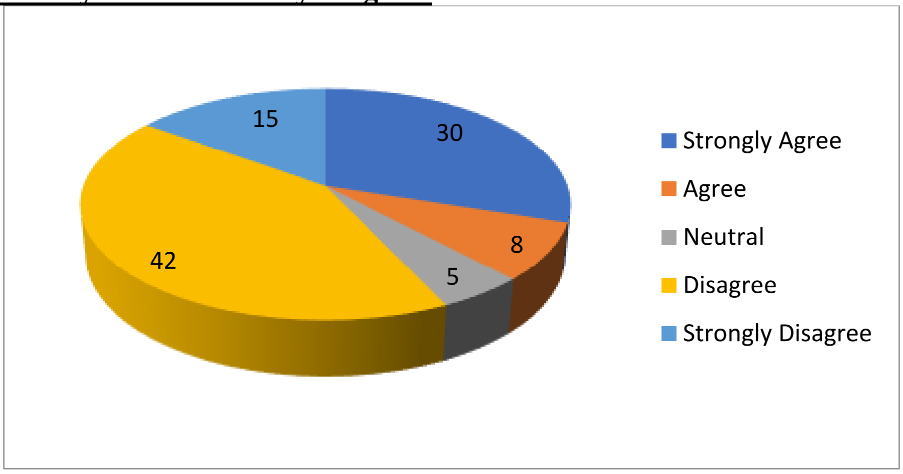


***Figure 2***

***Self-Created***

38% strongly agree to the statement that positive news on social media, does enhances the confidence, while 57% have mentioned that any positive news on social media leads to a direct and a positive influence on the decision making taken on the investment by the investors. The positive of investors can be highly driving the confidence level, and even leads to the growth in the investment decision. As indicated, more reliance on social media can lead to a positive influence with the positive news on the social media as given.

3. **<u>I have a high relevance on social media to stay updated about the investment trends in the market, and about the market investment options and choices. Do you agree?</u>**

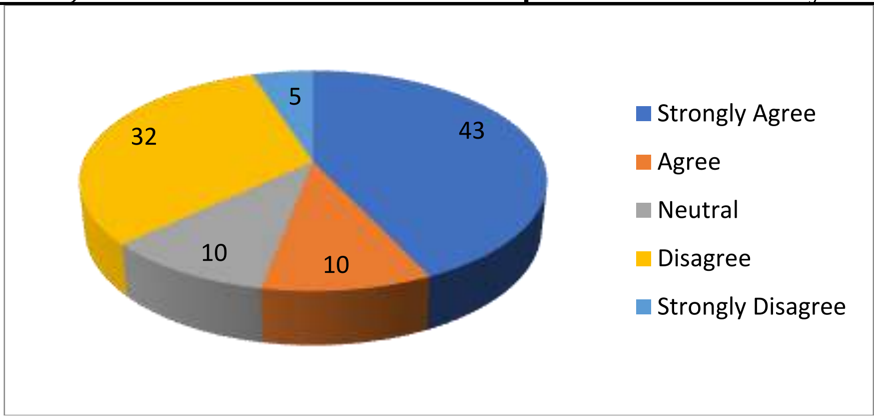


***Figure 3***

***Self-Created***

From above graph, it can be ascertained that 43% strongly agree, 10% agree, 10% are neutral to the statement, 32% disagree while the rest 5% strongly disagree to the statement that social media makes the investors that stay on social media keeps them positive with the trends in investment. The social media keeps the investors to get with the options and choices to the investors to have their decision of investment as given on social media. There are multiple social media updates and pages to stay updated with the investing trends and thus influencing the high decision makingand confidence level and even staying them updated with available options and choices.

4. **<u>Social media has made me stay more updated, and informed with the strategies of investment with a high confidence towards my choices. Do you agree?</u>**

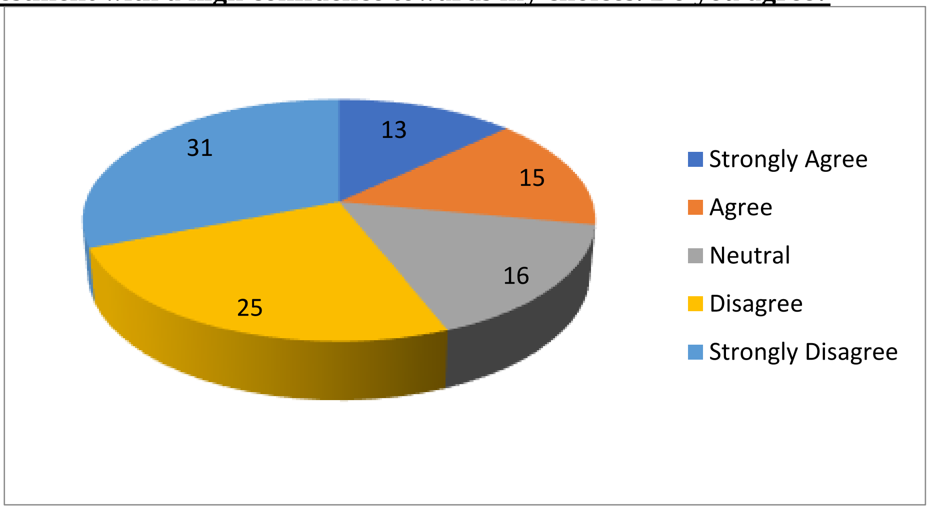


***Figure 4***

***Self-Created***

Social media has highly updated with the investment confidence level, to which 13% strongly agree, 15% agree, 16% have a neutral opinion while the rest 56% disagree with the statement. Social media does not have more updates and informed decision making, instead it sometimes leading to adverse news that might affect the confidence adversely and having high financial losses across. As given, overall the investor confidence level might not stay aligned with the social media updates and strategies given leading to an adverse decision.

5. **<u>I have even made impulsive investment decisions on the posts with social media. Do you agree?</u>**

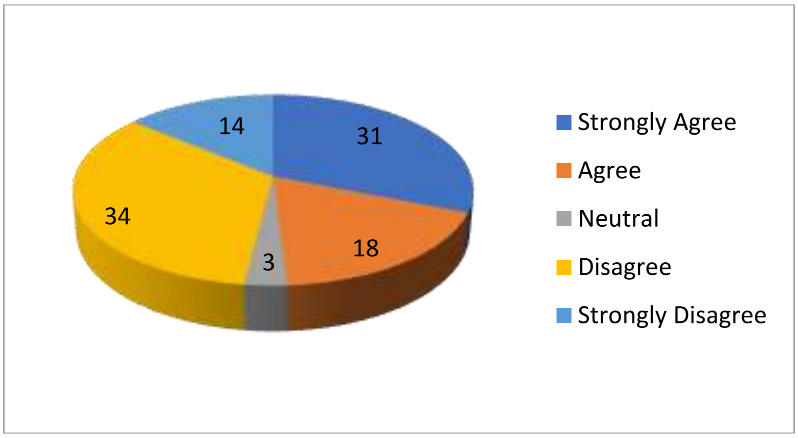


***Figure 5***

***Self-Created***

From the above graph, it can be inferred that 31% strongly agree, 18% agree, 3% are neutral to the opinion, 34% disagree with the statement, and the rest 14% have strongly disagreed to the statement. It is indicating that more of resilience of the people towards social media, while analysing their social media investor confidence level might be adversely leading to the impulsive decision making, while the rest can focus on to get with more effective decision making with the posts on social media.

***Discussions***

Social media and news can inflate market movements and generate hype, which can cause investors to overreact. Investors may get convinced of an impending market crash, for example, based on a dramatic headline, even though the situation may not be as bad as it appears. This may result in panic sales, which would make the situation even worse. Investors are using social media platforms more and more to exchange thoughts, ideas, and responses about what's going on in the market. Given that investors may be swayed by the views of others, this could have a big effect on investor mood. As if a well-known investor tweets something unfavourable, it can prompt other investors to sell their holdings, which would lower the price.

Investor sentiment can also be influenced by the way news and social media outlets cover market developments. A news outlet may mislead investors into thinking that a certain industry or sector is in jeopardy even when that is not the case if it often publishes unfavourable news about it. Price declines and a deterioration in investor sentiment may result from this.

Additionally, investors can benefit from the insightful analysis and news found on social media and the press. Financial news sources have the potential to offer comprehensive evaluations of market trends, assisting investors in arriving at more educated choices. Insights and analysis from subject-matter experts can also be shared via social media platforms, which aids investors in better comprehending current market situations.

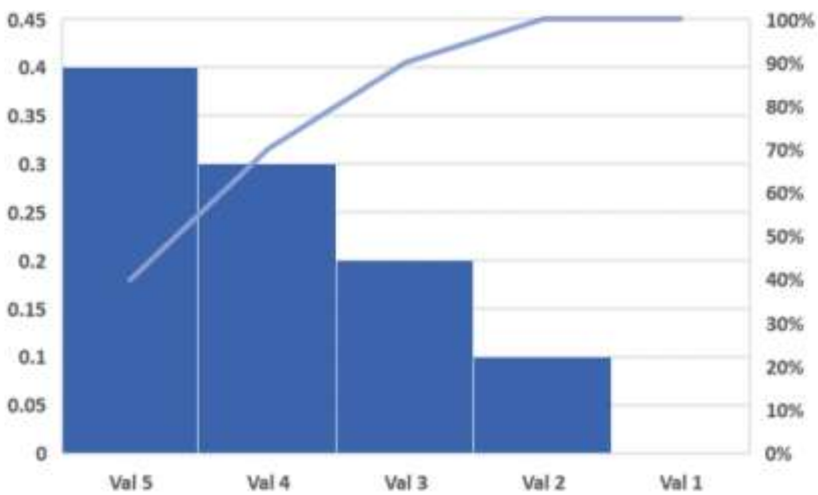


Figure 6: Influence of social media on investment decision making

Source: (Sathya and Prabhavathi, 2024)

Social media's influence on financial decisions has come under scrutiny as a result of the growing usage of these platforms for advice and information about investing. Within this article, that the risk perception and behavioural biases affect investing choices. In particular, the purpose is showing that the social media influence is going high and growing, stating that the social media shows a high influence in the confidence level in the investors, by driving their decision.

The need of social media usage management for sane investment choices. The study's findings can assist individual investors in making better-informed choices by illuminating how social media influences their investment-related behaviours and attitudes. Policymakers and financial regulators can utilise the material in this study to create rules for the appropriate use of social media in the investing business.

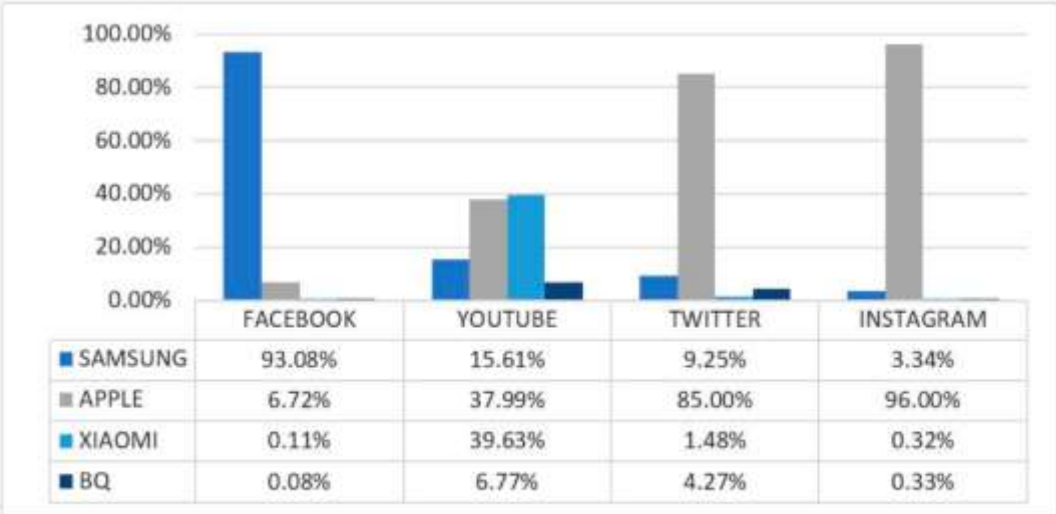


Figure 7: Social Media platforms on investor confidence

Source: (Ismail, et al., 2018)

The decision to invest is influenced by the information available online regarding various assets. The information from several social media platforms, such as YouTube, Facebook, Twitter, and others, was the main focus of the study. Financial experts, banks, businesses, or even other investors may provide the information. The information gathered from social media and investment decisions are related, according to this study, with the likelihood of making an investment increasing as more information on a given investment becomes available on social media.

Many different things can influence investor sentiment in the realm of investment. Recent years have seen the rise of social media and news as major influences. Investor perspectives on the economy, the stock market, and specific companies might be influenced by the constant flow of information that is available to them today. The effect of news and social media on investor sentiment will be discussed in this part, along with some tips for investors looking to stay informed without being overloaded. Although investors can obtain valuable information from news and social media, excessive dependence on these sources might have certain drawbacks. A major concern is that the steady stream of information could cause investors to get overwhelmed or sidetracked.

Additionally, they might be subjected to skewed or false news, which could influence their choice of investments. On the other hand, social media and news can also provide investors with a more comprehensive view of the market and keep them informed about breaking news that may have an impact on their investments.

## Conclusion

Given the increasing digitization of the financial industry and the widespread usage of social media, research on the impact of social media on investment decisions is imperative. Given that social media is a trustworthy source of information, the empirical data for this study has significant ramifications that could assist traders and investors in revising financial plans and decisions. Furthermore, since information on social media might be misleading to investors, particularly novice ones, this study can help regulators and lawmakers create guidelines and standards for posting information. To close this gap, further research and analysis are necessary to fully understand the conduct finance it demonstrates in general.

Positive or negative investor sentiment towards a specific stock or market can be amplified via social media platforms. False information, rumours, and fake news can flourish on social media platforms. Investing decisions might become irrational for investors who are misled by inaccurate information. The sentiment of investors towards a specific stock or market can be ascertained through social media channels. In order to categorise social media messages as positive, bad, or neutral, sentiment analysis use algorithms to evaluate the content. Important information on the preferences and behaviour of investors may be gained from this. Social media is a tool used by businesses and analysts for reputation management, information sharing, and communication with investors. Updates on product releases, earnings reports, and other business news can be found on social media platforms.

**Recommendation**

1. Investors should be educated towards the sue of social media, confirmations of the biasness, and also to be working with caution on the heard things on social media, awareness can be a way to lead towards the informed decision making.
2. The investors to be encouraged to get with the critical skills of thinking while the social media usage, making them to be aware to verify the source, fast-check on information and not being psychologically driven towards what they see on social media.

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## Appendix

## Questionnaire

1. As an investor, you have been highly influenced with your investment decision confidence level with the social media, and the opinions of the people. Do you agree?
2. If I have got any positive news on social media, then I have felt more confidence towards my investment. Do you agree?
3. I have a high relevance on social media to stay updated about the investment trends in the market, and about the market investment options and choices. Do you agree?
4. Social media has made me stay more updated, and informed with the strategies of investment with a high confidence towards my choices. Do you agree?
5. I have even made impulsive investment decisions on the posts with social media. Do you agree?