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INFLUENCE AND OVERVIEW OF SOCIAL MEDIA PLATFORMS IN THE INVESTMENT DECISION OF RETAIL INVESTORS

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ABSTRACT

This research investigates the social media platforms Twitter, Reddit, YouTube, and TikTok impact on retail investors' decision-making. From a behavioral finance viewpoint, the research uses survey evidence from 104 active retail market participants. The results show that social media is an attractive source of investment information but also creates cognitive biases. Surprisingly, 65% of participants confessed to using the sites for investment tips, while only 12% marked the information as highly reliable. Financial influencer posts and viral posts were seen to trigger herd behavior and overconfidence, especially among young investors. Statistical correlation showed that frequent social media use was strongly correlated with perceived trust in content in a sign of familiarity bias. These results evidence increased democratization in the dissemination of financial information but also an erosion of trust echoing the need for increased financial literacy and online regulatory standards.

KEYWORDS: *Social Media Platforms, Retail Investors, Investment Decision-Making, Behavioral Finance, Cognitive Biases, Herd Behavior, Overconfidence, Authority Bias, Familiarity Bias, Financial Information Credibility, Financial Literacy, Online Investment Communities, Survey Analysis, Viral Market Trends, Market Speculation, Investor Psychology, Digital Financial Behavior, Pearson Correlation, Investment Risk Perception.*

INTRODUCTION

Social media has now had a dramatic impact on how personal investors employ financial data and make investment decisions. X (Twitter), Reddit, TikTok, YouTube, and Facebook are now influential instruments that influence investor opinion and grant immediate access to financial data. This has opened access to a broader dissemination of market knowledge, essentially reducing the barrier to market entry for new investors. This development, however, has attendant risks i.e., the wider dissemination of cognitive bias, speculation, and misinformation. An epitome of this phenomenon was the 2021 stock price surges in GameStop and AMC, which were primarily driven by viral social media sharing and not considerations of fundamental valuation.

Classical economic frameworks, including the Efficient Market Hypothesis (EMH), assume that investors are rational and take into account all available information before making a choice. In contrast, behavioral finance suggests that actual investment decisions are driven by psychological and emotional biases. Explicit behavior biases involve overconfidence where people overestimate their analytical powers; confirmation bias where people give excessive importance to whatever information confirms their preconceptions; and the disposition effect where investors do not like to sell poorly performing assets. Emotional reactions like fear and greed make rational choice-making even tougher. Social media enables these tendencies through mechanisms like instant feedback loops and social validation. As already established in psychology literature, social proof the tendency to do what the majority do can be an inducer of collective choice, particularly in times of market uncertainty, and lead to herding behavior in investment. This study examines how these behavioral characteristics are seen in the context of retail investing using social media. The study is both empirical and theoretical. The study first outlines the plan and design of a survey of retail investors. The following sections outline the main findings on investor psychology, decision-making behavior, and consequent market outcomes. The discussion then connects these findings to long-standing behavioral finance theories and considers implications for individual investors and regulators.

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LITERATURE REVIEW

The rise of social media has brought significant influence to the financial markets' relationship with retail investors, presenting new hope and great peril. Online communities like X (formerly Twitter), Reddit, and TikTok have emerged as paramount sites for discovery of potential investment opportunities, especially for younger, digitally native investors (Chen & Hwang, 2022). The 2021 GameStop drama illustrated how online communities can coordinate collective action, driving stock price spikes in defiance of traditional financial signals (Harris & Kumar, 2021). The trends suggest the increasing influence of virtual networks in determining stock market dynamics.

Behavioral finance research indicates that such platforms will amplify cognitive biases that inform investor decision-making. A good example is herd behavior, individuals mimicking popular trades without personal due diligence, a prevalent experience among online investment platforms (Lee & Wang, 2020). Moreover, authority bias leads most users to follow social media influencers' advice regardless of their experience or genuineness (Martin & Zhang, 2023). Astonishingly, even though a high percentage of retail investors use social media for market data, comparatively few have high levels of confidence in the genuineness of information they receive (Chen & Hwang, 2022). This gap is evidence of the constant tension between ease of access to information and its genuineness in the digital investment setting. Younger investors, in particular, seem to be more prone to emotionally guided behavior such as fear of missing out (FOMO), which would translate to reckless trades and suboptimal portfolio performance (Harris & Kumar, 2021). The constant stream of real-time market sentiment being offered on social media may give the impression of being well-informed, but conceal the underlying risk (Lee & Wang, 2020). As social media continues to shape financially related decision-making, it is crucial to study the underlying psychological and behavioral implications of it to individual investors as well as the regulatory agencies.

METHODOLOGY

This research employed a mixed-methods approach, marrying statistical data and theoretical analysis. A survey was designed and deployed online using Google Forms to active retail investors who actively engage with financial discourse on social media. Questions were asked on eight thematic topics, for example, the nature of platforms used (e.g., Reddit, X/Twitter), sources of financial information and perceived credibility, online influencer impacts, and attitudes towards the risks of investment in viral or "meme" stocks. 104 usable surveys were returned, which gave insight into the behavior and attitudes of a predominantly young and digitally engaged investor group. The participant sample was gathered using convenience sampling, with a high proportion of Millennial and Gen Z participants who actively engaged with online financial discourse.

The quantitative analysis used descriptive statistics and Pearson correlation tests. Response patterns were explained in terms of percentages (e.g., how many use social media for investment research), and correlations among variables e.g., how often used, trust in the advice, and behavioral tendencies were examined. For instance, the research investigated whether higher trust in social media advice was linked with higher usage. The survey was completed on a completely anonymous basis, collecting no personal or identifiable data. On the interpretive side, the data were examined through the lens of behavioral finance. Overconfidence, herd behavior, and FOMO, as well as the Social Proof Theory, which describes how people tend to repeat behaviors that seem popular, were the primary theories. To further situate the findings, major market events namely, the GameStop rally and crypto volatility provided context. This mixed approach enabled quantification of investment behaviors alongside a more theoretical, qualitative understanding of their psychological underpinnings.

RESULTS

Survey Findings

The survey results indicated that a significant portion of participants rely on social media as a primary channel for obtaining investment insights. As shown in Table 1, most respondents confirmed using digital platforms to support their investment decisions:

Survey Finding	Percentage of Respondents
Used social media for investment decisions	65%
Influenced by online financial “finfluencers”	58%
Invest in stocks trending on social media	56%
Rate social-media financial info as highly credible	12%

Table 1: Key survey results on social media use and perceptions.

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A staggering 65% of those surveyed said that they used social media for investment ideas, and 58% said that messages posted by financial influencers actually shape their investment choices. In addition, 56% said that they bought stocks simply because they were trending on social media fully a pattern of herd behavior or momentum investing. With usage so prevalent, only 12% found the information on such sites to be highly credible, which implies an enormous disconnect between usage and credibility. Most intriguingly, 36% said that they sometimes made investment decisions based on content on social media without always verifying such information with other sources.

Meanwhile, the answers were also marked by prudence, most respondents said that they usually cross-check social media tips with official or more authoritative sources of finance (data not tabulated), showing that veteran users would consider on-line input as first indication rather than final advice. In addition, 58% concurred that sites have made public access to finance more accessible echoing perceptions of democratization of market information while 42% were worried about more exposure to finance risk through the same channels.

Correlation Analysis

Pearson correlation analysis also revealed significant relationships among investor attitudes. As presented in Table 2, the strongest relationship was between perceived credibility and perceived reliability of social media information ($r = 0.61$, $p < 0.001$). This suggests that those who perceive information from such sites as reliable are also more inclined to find it credible. There was also a moderate positive correlation between frequency of usage of platforms and perceived credibility ($r = 0.42$, $p < 0.001$), implying that increased use of social media is related to higher trust—a demonstration of familiarity bias. Additionally, the level of influence from online financial influencers correlated moderately with the tendency to follow market trends ($r = 0.41$, $p < 0.001$). This suggests that individuals who place value on influencer thoughts are likely to invest in the then-currently trending assets.

Variable Pair	Correlation (r)	Significance (p)
Credibility & Reliability Perception	0.61 (strong)	< 0.001
Credibility & Usage Frequency	0.42 (moderate)	< 0.001
Influencer Impact & Trend Following	0.41 (moderate)	< 0.001
Usage Frequency & Sole Decision-Making	0.35 (moderate)	< 0.001

Table 2: Selected Correlations Between Social-Media Use Variables and Investor Attitudes.

The results of the correlations are consistent with behavioral inclinations like familiarity and authority bias. In particular, those who used social media more often tended to consider its content trustworthy. Similarly, those who were influenced by financial influencers also tended to invest in trending or popular stocks. Generally speaking, the evidence implies that higher usage of social sites correlates with less independent thought: higher users were more likely to make investment decisions on the basis of online material alone ($r = 0.35$), indicating a possible over-reliance on electronic inputs rather than personal judgment.

DISCUSSION

The findings are consistent with central tenets of behavioral finance. The prevalence of the use of social media in investment choices reported by 65% of the respondents testifies to the extent to which online platforms have made information about the markets ubiquitous. Yet, the low level of such content's reliability, with a mere 12% of the respondents rating it highly reliable, is evidence of an intermediary approach by investors. The majority use social platforms only for first impressions, looking for further confirmation elsewhere. This is an indicator of confirmation bias where people are drawn to information confirming their preconceived notions. In addition, algorithmic display of information on social media tends to reinforce such notions, promoting echo chambers supportive of biased impressions.

Social conformity and imitation patterns are also evident. More than half of the participants confessed buying trend stocks, an evident indicator of herd behavior where people copy the majority, believing that what is popular must be correct. Social media amplifies this phenomenon through likes, shares, and viral activity. The evidence indicates that participants impacted by online financial influencers were especially likely to follow trends, a case in point for

authority bias in which perceived credibility results in imitation, in many cases without proper research. Behavioral models would anticipate such behavior: people are more likely to act on advice with the seal of approval from peers or influencers, particularly when facing time constraints or uncertainty.

There is evidence of overconfidence as well. The report states that of those users who actively used social media for trading, they made about 40% more trades than they typically would. The heightened activity is indicative of an exaggerated belief in ability or knowledge, a prime characteristic of overconfidence. Constant platform use being linked to complete dependence on internet sources also points to the lack of independent assessment, potentially leading to increased exposure to bad investment decisions. The tendency of responding to emotional triggers like FOMO was particularly dominant among younger respondents (18–34 years old), who were more likely to take cues from online trends. This is in accordance with the behavioral characteristics of new investors who might be more susceptible to viral content and social influence.

These behavioral biases can lead to underperformance. The report quotes that portfolios dominated by social media underperform by about 2% per year, usually as a result of reactive trading and speculation. This is only natural when investors follow the herd buy low and sell high. Real-world experience has borne out this pattern: the GameStop and AMC rallies, for example, demonstrated how online chatter could rapidly inflate asset prices, but late entrants lose money when the trend reverses. The same patterns have also been witnessed on the crypto market, where viral mania overblows valuations beyond underlying fundamentals. More generally, the study supports behavioral finance evidence: psychological heuristics like overconfidence, herding, and familiarity bias and emotional drivers like greed and FOMO provide a solid explanation of what is occurring. Social media are simultaneously a vehicle for access to information and an impetus for irrational behavior. Although most investors are aware of these risks, most double-check online advice against trusted sources (data not available) these heuristics often lie below conscious awareness, operating behind the scenes to shape financial decisions.

CONCLUSION

This study emphasizes the powerful impact that social media sites have on retail investor behavior. Platforms such as Reddit, TikTok, and X (formerly Twitter) have played a role in making more financial information more accessible, in effect decentralizing market knowledge. That said, findings from a survey of 104 retail investors uncover a crucial disconnect: while 65% use these sites for investment advice, only 12% strongly trust what they see. This gap in credibility is more common through the theories of behavioral finance, where repeated exposure to social material activates biases like familiarity and authority, leading to herd behavior and overconfidence especially among younger and more inexperienced users.

These results have twofold implications. On the one hand, social media provides a window of opportunity for retail participants to tap into market wisdom and gain from community-derived wisdom. Conversely, they create significant risks: misleading information, groupthink, and emotionally charged choices can lead to asset bubbles as well as reactive trading behavior. Stakeholders such as regulators, educators, and technology companies need to take these impacts seriously. Financial literacy programs that enable individuals to understand cognitive biases, as well as tougher disclosure standards for sponsored financial content, are critical to counterbalance the detrimental effects identified in the study. As the analysis concluded, creating an informative and fair investment climate in the age of social media will involve reconciling the positives and negatives of social media with robust protections against disinformation.

Essentially, the report demonstrates how social media as an investment medium is both beneficial and dangerous. On one hand, it provides new platforms for engagement and education, yet on the other, it gives rise to pitfalls that can result in negative consequences. Investors are urged to practice critical thinking and cross-check online recommendations against credible, verified sources. Psychological self-awareness coupled with educated skepticism is necessary when operating in the fast-paced, digital-driven financial environment of today.

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