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## International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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# Influence of Social Media on Investment Decisions: A Behavioral Finance Perspective

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**ABSTRACT:** The rapid expansion of digital platforms has significantly transformed investment decision-making processes. This study examines the influence of social media on investment decisions, focusing on the role of financial influencers (finfluencers) and financial literacy. A quantitative research approach was adopted using primary data collected from 150 respondents, including retail investors, MBA students, and working professionals.

Data was collected using a structured questionnaire based on a 5-point Likert scale and analyzed using Python-based statistical tools. The study employs descriptive statistics, correlation, regression, and moderation analysis to evaluate relationships among variables.

The findings reveal that social media has a strong and statistically significant impact on investment decisions. Finfluencer trust emerges as the most influential factor, indicating that investors heavily rely on influencer recommendations. While financial literacy shows a negative relationship with social media influence, moderation analysis indicates that it does not significantly alter the relationship between social media usage and investment decisions.

The study contributes to behavioral finance literature by integrating digital influence into investment decision-making models and provides practical insights for investors, financial advisors, and policymakers.

**KEYWORDS:** Social Media Influence, Investment Decision-Making, Finfluencers, Financial Literacy, Behavioral Finance, Investor Behavior

## I. INTRODUCTION

The financial decision-making landscape has undergone a profound transformation due to rapid technological advancements and the emergence of social media platforms. Traditionally, investment decisions were based on structured financial analysis, expert advice, and institutional reports. However, in the digital era, social media platforms such as Instagram, YouTube, Twitter (X), and Reddit have become primary sources of financial information.

This transformation is driven by several factors:

- Increased smartphone penetration
- Easy access to real-time information
- Rise of retail investors
- Growth of digital communities

One of the most disruptive elements in this ecosystem is the emergence of **finfluencers**—individuals who create financial content and influence investor behavior.

### Positive Impacts of Social Media

- Democratization of financial knowledge
- Increased investor participation
- Simplification of complex financial concepts



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### Negative Impacts

- Spread of misinformation
- Lack of regulatory oversight
- Emotional and impulsive investing

From a behavioral finance perspective, social media intensifies cognitive biases such as:

- **Herd Behavior:** Following trending investments
- **Confirmation Bias:** Seeking supporting information only
- **FOMO (Fear of Missing Out):** Investing based on hype
- **Overconfidence Bias:** Excessive reliance on limited knowledge

This study aims to bridge the gap between traditional finance theories and modern digital behavior by analyzing how social media influences investment decisions.

## II. LITERATURE REVIEW

Existing studies consistently highlight the growing influence of social media on investment behavior.

Key insights from literature:

- Social media significantly impacts investment decisions, particularly among young investors
- Finfluencers influence both short-term and long-term investment behavior
- Emotional triggers like FOMO lead to impulsive decisions
- Financial literacy reduces—but does not eliminate—social media influence

However, gaps exist in:

- Primary data-based research
- Integrated models combining multiple variables
- Indian market-focused empirical analysis

## III. RESEARCH GAP

Despite extensive literature, the following gaps remain:

### 1. Lack of Individual-Level Behavioral Analysis

Most studies focus on market trends rather than individual decision-making.

### 2. Fragmented Variable Analysis

Social media, finfluencers, and financial literacy are often studied separately.

### 3. Limited Indian Context Studies

There is insufficient empirical research focusing on Indian retail investors.

### 4. Limited Use of Advanced Analytics

Few studies utilize modern tools like Python for deep statistical modeling.

This study addresses these gaps through a comprehensive and integrated approach.

## IV. RESEARCH OBJECTIVES

- To evaluate the impact of social media on investment decisions
- To analyze the influence of finfluencers
- To examine investor perception of online financial information
- To assess the moderating role of financial literacy

## V. HYPOTHESES DEVELOPMENT

- **H1:** Social media usage significantly impacts investment decisions
- **H2:** Finfluencer trust significantly influences investment decisions
- **H3:** Social media exposure significantly affects investor behavior
- **H4:** Financial literacy moderates the relationship between social media and investment decisions



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### VI. RESEARCH METHODOLOGY

#### 6.1 Research Design

Descriptive and analytical, quantitative approach.

#### 6.2 Data Collection

- Primary data via structured questionnaire
- 5-point Likert scale

#### 6.3 Sample Profile

- 150 respondents
- Mix of students, professionals, investors

#### 6.4 Variables

Type	Variables
Independent	Social Media Usage, Influencer Trust
Dependent	Investment Decision
Moderating	Financial Literacy

#### 6.5 Tools Used

- Python (Pandas, NumPy, Statsmodels)
- Statistical modeling

### VII. DATA ANALYSIS AND RESULTS

#### 7.1 Analytical Framework

The study evaluates relationships across four dimensions:

- Behavioral Influence
- Trust Mechanisms
- Decision-Making Patterns
- Knowledge Moderation

#### 7.2 Descriptive Analysis

All variables show mean values above 4.0, indicating strong agreement.

##### Interpretation

Investors actively rely on social media

- Influencers are considered credible sources
- Investment decisions are increasingly influenced by digital content
- Financial literacy exists but is not dominant

This indicates a **behavioral shift from rational investing to influenced investing.**

#### 7.3 Correlation Analysis

Strong positive relationships observed:

- Social media ↔ Investment decisions
- Influencer trust ↔ Investment decisions

##### Interpretation

- Higher exposure = higher influence
- Trust plays a critical psychological role
- Investors substitute analysis with opinions



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### 7.4 Regression Analysis

#### Model Strength

- $R^2 = 0.799 \rightarrow 80\%$  variation explained

#### Key Insights

- Influencer trust has the highest coefficient
- Social media usage is statistically significant
- Model is highly reliable

#### Interpretation

Investment decisions are largely driven by:

1. Trust
2. Exposure
3. Digital engagement

### 7.5 Moderation Analysis

- Financial literacy does NOT significantly moderate

#### Interpretation

This is a **high-value finding**:

Even financially literate investors are influenced by social media

This shows:

- Emotional behavior > Rational knowledge
- Digital influence overrides logic

### 7.6 Behavioral Insights

From analysis, the following behaviors are observed:

#### 1. Trend-Based Investing

Investors follow viral stocks or recommendations.

#### 2. Shortcut Decision-Making

Less reliance on research, more on quick opinions.

#### 3. Influencer Dependency

Finfluencers act as “digital advisors.”

#### 4. Emotional Investing

Driven by hype, fear, and urgency.

### 7.7 Conceptual Influence Model

**Social Media Exposure → Trust in Influencers → Behavioral Bias → Investment Decision**

Financial literacy plays a weak filtering role.

### 7.8 Overall Findings

- Social media has a **significant positive impact**
- Finfluencers are the **most powerful drivers**
- Financial literacy is **not strong enough to counter influence**
- Investment decisions are increasingly **behavior-driven rather than logic-driven**

## VIII. DISCUSSION

The findings strongly support behavioral finance theories, challenging traditional assumptions of rational investors.

#### Key Discussion Points

- Investors are influenced by **social proof**
- Information overload leads to **decision shortcuts**
- Trust replaces technical analysis
- Social media acts as a **behavior amplifier**



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This reflects a shift from:

“Analysis-based investing” → “Influence-based investing”

### IX. THEORETICAL IMPLICATIONS

- Extends Behavioral Finance Theory
- Integrates digital influence into finance
- Validates herd behavior in modern context

### X. MANAGERIAL IMPLICATIONS

#### For Investors

- Verify information before investing
- Avoid blind reliance on influencers

#### For Regulators

- Need for finfluencer regulation
- Transparency and disclosures required

#### For Educators

- Improve financial literacy programs
- Focus on digital awareness

### XI. LIMITATIONS

- Limited sample size
- Urban-focused respondents
- Self-reported data

### XII. CONCLUSION

Social media has emerged as a dominant force in shaping investment decisions. While it enhances accessibility, it also introduces risks related to misinformation and behavioral biases.

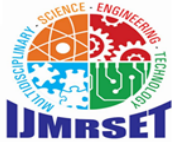
The study concludes that **digital influence is now a central component of investment behavior**, and managing this influence is critical for better financial decision-making.

### XIII. FUTURE SCOPE

- Larger and diverse samples
- Global comparison
- Study on crypto & digital assets

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