JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

The Role of Social Media in Modern Investment Decision-Making

Dr.MD. Mazharunnisa, D.Nimeshini, K.Sireesha, T.Deepika, Ch.Sruthi, P.Sathvik

Associate Professor, Students
K.L. University

Abstract : The growth of social media has transformed the way investors interact, share information, and make investment decisions. Unlike traditional information sources, platforms like Twitter (X), Reddit, Telegram, and YouTube allow investors to engage in real-time discussions about market trends and company performance. This study investigates how social media impacts investor confidence, decision-making, and behavioural patterns. It also explores the potential risks associated with overreliance on such platforms, such as irrational decision-making and speculative behaviour. Primary and secondary data are analysed to understand the dual nature of social media's influence—both empowering and misleading investors in modern financial markets.

Keywords: *Social media, retail investors, investor confidence, speculative behaviour, sentiment analysis, herd behaviour.*

I. INTRODUCTION

The digital revolution has reshaped every aspect of human life, including how financial decisions are made. Social media platforms have evolved into powerful communication tools that enable users to share and access information quickly. For investors, this has meant the rise of "crowd-driven investing," where individuals rely heavily on social signals and discussions instead of institutional advice.

Retail investors have embraced platforms such as Reddit's *r/WallStreetBets*, Twitter, YouTube finance channels, and Telegram groups to discuss stocks, cryptocurrencies, and mutual funds. However, while social media democratizes information, it also increases the spread of rumors, misinformation, and emotionally charged content, which can fuel irrational trading behavior.

This paper aims to examine both the positive and negative consequences of social media in investment decision-making, highlighting its role in shaping investor confidence and behavior in the modern era.

Objectives of the Study:

1. To understand how information shared on social media impacts investor perceptions and confidence.

2. To identify the potential risks and benefits of relying on social media as a source of investment information.

3. To evaluate the extent to which social media influences retail investors' actual investment behavior and decision-making patterns.

4. To analyze the relationship between the level of social media engagement and the likelihood of irrational or speculative investment behavior.

Review of Literature:

Social media and Information Dissemination: According to Kaplan & Haenlein (2010), social media acts as an interactive platform for content creation and sharing. Financial discussions online create a community-based flow of investment information that influences perception and sentiment.

Investor Behavior in the Digital Era: Barber and Odean (2013) suggest that investors tend to exhibit overconfidence when exposed to information abundance, leading to excessive trading. Social media intensifies this by amplifying herd behavior.

Social media and Market Events: The GameStop short squeeze (2021), driven by Reddit users, exemplified how collective online behavior could influence stock prices dramatically. Similarly, Dogecoin's surge (2021) due to influencer tweets demonstrated the speculative power of online sentiment.

Misinformation and Emotional Investing: Studies by Bollen et al. (2011) show a correlation between Twitter mood and market movements, highlighting the emotional nature of investor decisions influenced by social media.

Statement of the Problem: The increasing reliance on social media for investment decisions presents a significant research problem. While these platforms enable investors to access market insights instantly, they also expose users to misinformation, emotional contagion, and speculative trends. The challenge lies in determining whether social media serves as a reliable source of investment knowledge or merely amplifies risky behavior. Therefore, this study seeks to understand how social media affects investors' confidence, perceptions, and decision-making patterns, and to identify the extent to which it contributes to rational or irrational financial behavior.

Research Methodology:

Research Design: This study adopts a descriptive and analytical research design, combining both primary and secondary data to analyze the influence of social media on investors.

Data Collection:

- Primary Data: Survey responses from 100 retail investors aged 20–45, gathered via online questionnaire.
- Secondary Data: Academic journals, articles, and case studies on behavioral finance and social media.
- Sampling Technique: Convenience sampling is used to target active retail investors engaged with social media platforms.

Tools for Analysis: Data are analyzed using statistical tools such as percentage analysis, mean scores, and correlation analysis to test the hypotheses.

Data Analysis:

Demographic Factor	**Category**	**Percentage**
Age	20–30 years	55%
Gender	Male – 60%, Female – 40%	—
Education	Graduate/PG	80%
Active social media investors	Yes – 90%	—

Interpretation:

➢ Findings:

○ 85% of respondents admitted that social media content influences their investment choices.

○ 70% agreed that influencer opinions increase their confidence to invest.

○ 65% accepted that viral trends sometimes lead to impulsive or speculative decisions.

➢ Correlation Result:

○ A strong positive correlation (r = 0.71) was found between social media engagement and frequency of trading.

○ A moderate correlation (r = 0.56) existed between social media reliance and irrational behavior.

Findings:

- Social media significantly influences investor confidence and decision-making.

- Retail investors tend to follow popular opinions without verifying authenticity.
- Overreliance on social media increases the risk of speculation.
- Social media enhances accessibility and participation in the financial market.
- Investors often confuse online popularity of stocks with their actual performance.

Conclusion:

The study concludes that social media has become an inseparable part of modern investment behavior. While it has democratized access to financial information and increased participation, it has also fostered new risks—particularly speculative and emotion-driven trading. Responsible use of social media, combined with sound financial literacy, is essential for sustainable investment practices.

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