

Thoughts on the Influence of Social Media on Investor Behavior under the Concept of Behavioral Finance

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Abstract

At present, most investors' sources for learning and discussing investment issues have been social media platforms. Behavioral finance considers the impact of social media on behaviour, and thus, when presenting data, one cannot ignore the spread of emotions, herd behaviour, attention biases and contagion effects. Social media's effects on investor behaviour in light of behavioural finance are presented here. Four channels through which social media influences investors have been identified in the analysis: the dissemination of information, the transmission of sentiment, social proof and attention concentration. Recent research has shown that attention on social media can lead to risk-taking behaviour, herd behaviour, short-termism and noisy trading; at the same time, information is also disseminated. In short, a large number of news and other information are available on social media for investors, but some investors are more prone to bias.

Keywords

Behavioral finance, social media, investor behavior, herding, sentiment, attention bias.

1. Introduction

With the development of society, many people are now learning how to invest themselves. Different from traditional financial media, social platforms also spread news, opinions and emotions, and peer discussions at the same time. Therefore, these are highly relevant to behavioural finance and explore how psychological factors influence investment behaviour [1-2].

Social media is not always neutral. Posts, likes, reposts, upvotes and influencer comments can all be positive or negative indicators of investor sentiment and market expectations. Research has shown that, in WallStreetBets and other similar communities on social media, attention from this platform can make people feel more willing to take risks and expand the scope of investment in unregulated markets [3-4]. At the same time, some studies have also found that social media can spread basic information to retail investors more rapidly [5].

Behavioural finance can be used to study the change in investor behavior under the impact of social media. Explain the application scenario of social media for aiding investors, teachers and regulatory authorities in decision-making. In short, one can either enhance or reduce the quality of investment choices by providing various information situations and cognitive biases to people via social media.

2. Behavioral Mechanisms

2.1. Attention and Salience

Social media can draw people's attention to themselves more easily. More recently, many of the new changes, popular posts and well-known views attract the eyes of investors. Attention in behavioural finance refers to how investors focus their attention; it determines which information they are given more weight, what they consider to be relevant, and therefore what

they decide to buy or sell. Research on reddit and twitter-based behaviour has indicated that increased attention may lead to higher trading frequency and altered portfolio allocations [3,6]. Attention bias is problematic because, in a hurry to give investors all the information they are interested in, not all of it receives equal attention. The platform will promote a greater reach for content that generates interest through emotions and may spread this content more widely. This makes salience more prominent than substance in the structure.

2.2. Herding and Social Proof

The other is a mass action. In the age of uncertainty, people look to others for advice all the time, and as a result, social media has become one of these places. Likes, the number of followers and group enthusiasm can serve as social proof for a good deal, even if the foundation is weak. Studies on the mood and spread speed of information in social media indicate that a high level of mood can lead to herd behaviour and reduce market efficiency [5-7].

Herding is relatively effective for retail investors who have little time and knowledge. A crowd displays confidence and may thus believe that this confidence is evidence. It will be high and will not reflect the actual level of the economy.

2.3. Emotion and Contagion

Social media also spread emotions. Fear, joy, anger, greed and so on are the emotions that spread rapidly in the network through posts. Behavioural finance believes that people are not always rational, and mood or emotion can also be reasons for behaviour. Research on social media attention and consumer behaviour indicates that emotional impulses may alter decisions regarding risk and purchases [3-8].

Emotional contagion is relatively strong, so people are likely to make poor judgments under the influence. Therefore, these investors may follow the trend of online discussions instead of performing a detailed analysis of risks and returns. Therefore, the emotions of the market will also be in a hurry.

3. Positive Effects

Social media is not only likely to have biases but can also spread information more efficiently. Low-cost market information, company news and peer discussions are available for small investors on social platforms. Some of these may help spread the benefits of financial inclusion more broadly and reduce information asymmetry [4, 5].

A recent study has found that social media attention can spread information among retail investors about earnings announcements more quickly, and online discussions may help disseminate fundamental information of a company in time [4]. Research conducted through experiments and surveys has shown that, in some cases, social media may influence people's investment decisions reasonably; when the information environment is relatively open and trustworthy, people may learn about investments from others via social media as well [9-10].

4. Negative Effects

The other is that social media can promote a sense of overconfidence, confirmation bias and short-sightedness. Viral financial content may make investors believe that they know more than they actually do and see a series of seemingly successful transactions. Studies have also shown that people use social media to seek easy money and make hasty decisions [6, 11].

Another kind is false news. As online content can be published by anyone, poor-quality advice will also spread widely. Finfluencers and other anonymous accounts spread rumours of speculation or organised trading and thus create a market bubble that harms other investors.

Therefore, behavioural finance has pointed out that social media may reduce self-control and increase the risk of poor choices when used carelessly [1, 2].

5. Investor Implications

Therefore, the investors are more likely to misinterpret the information they receive. Social media should only be considered one source of data among many others; it is not to replace detailed analysis. The Investor will consider whether the post is based on data, whether the source is motivated to spread false information, and whether the information is supported by financial data [1, 9].

Improve the financial literacy of youth. Those who are more familiar with finance can distinguish between the actual information and other noise better. They are more likely to think that a high-engagement item will not be high-quality. Therefore, behavioral finance education can serve as a buffer against the impact of excessive social media.

6. Regulatory Implications

Diffusion of social media is also under supervision. If the online discussion results in price changes due to a phenomenon of "herding behaviour", then authorities will need to increase information disclosure, enhance surveillance against manipulative behaviours, and issue more precise guidelines for financial promotion. However, regulation should not suppress online discussions outright. Increase openness and restrict falsification, while still transmitting the relevant data.

Due to the decentralisation and speed of change, the two cannot be harmonised. However, a behaviourist finance perspective proposes that regulations need to be introduced only in cases of extreme biases, such as the use of deceptive promoters or organized price manipulation without disclosure. Strengthen platform regulation to reduce harm and retain the information in social media.

7. Conclusion

Social media has become a powerful force in investor behavior. Under the concept of behavioral finance, its effects can be understood through attention, herding, emotion, and social proof [3, 5, 7]. The evidence shows both benefits and risks: social media can improve information diffusion, but it can also amplify overconfidence, short-termism, and speculative trading [4, 6, 11].

The main conclusion is that social media should be used cautiously and critically in investment decision-making. Investors who combine financial literacy with disciplined analysis are better positioned to benefit from social media without being overwhelmed by its behavioral biases.

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