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STAKES ON SOCIAL MEDIA

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Abstract

Purpose: *The astonishing development of social media and stock market groups to access algorithms and financially relevant information by the millennial since the extensive digitization has brought to the fore the power of social media. The main purpose of the article is to analyse the usage and potential of social media as an investment advisor. The study also aims to explore threats and opportunities of disseminating investment information on social media platforms.*

Design/methodology/approach: *The ubiquitous nature of social media and technology has permeated deeply in young investors investing behaviours. A sample of 100 respondents is surveyed on the usage of social media forums and the potential of the financial information on such forums was assessed.*

Results: *It is established that most young investors acknowledged the potential of social media for achieving additional returns.*

Conclusion: *The opinions of millennial are consistent with the current body of evidence that apart from stock advice from the experts and research companies, the informal sources also have great credibility. Further, on examination of news and other secondary data sources, the benefits and threats of such platforms are revealed.*

Originality/value: *The study is well timed and relevant, given the expanded role of the government in promoting digital platforms for investing and other financial services.*

Keywords: *India, Digitization, Social Media, Stock Market Groups*

INTRODUCTION

With the advent of the digitization in Indian economy, more and more commercial banks began to enter the field of e-commerce. A paradigm shift in the development of high-tech products and technology is subversive and revolutionary; the concept of commercial banks is steadily moving to a virtual bank. The change in financial services infrastructure is supplemented by change in mind-set of the financial services clients. In recent years, technological forces have disrupted classic financial market theory based on decision makers' rationality. The repeated anomalies have become a 'new normal'. The astonishing development of social media has further paved the way complex behaviour patterns and novel ways of investment decision-making.

The financial frontiers in current times are not restricted to proficient investment bankers and intellectual finance experts. Young investors finally have the audacity to enter the stock market with greener opinions, while older peers are still mulling through the difficulties of the recession and economic fluctuations. It is however quite fascinating that that the are not picking up the Dalal Street Journal, reading through the lines in The Economic Times or watching the bottom line ticker on CNBC to stay on top of stock prices and make well-informed trading assessments. Instead, they are using dynamic technology, advanced mobile applications and social media to seek out investment advice and engage with brokers.

One of the key motivations for the shift to social media is quick and easy way of accomplishing the tasks. Millennials are eminent at multitasking and do not particularly care for executing in-depth research with complex algorithms and spending a lot of time looking for solutions. The new generation of investors have been conditioned to having everything at their fingertips. Hence, looking for information in annual reports and constructing the investment patterns from colossal data and extensive search process is a turnoff for most of the young investors, with few financial savvy investors as an exception. Social investing platforms deliver all of these solutions with expert advice, investor forums and other monthly weekly charts, all at one click. Many leading online stock trading companies have begun launching their own social tools that securely integrate with their mobile apps and hence, build strong relationships with the clients.

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Kicking off as financial portals that commenced their journey by offering endofday stock prices to today perhaps becoming assortment of news (text and videos), analysis, data and tools on investing (across diverse asset classes), personal finance, the business sector and the economy.

Zenith's Head of Forecasting and Director of Global Intelligence reported in 2017 that with a rise in smartphone ownership globally, China would have highest number of smartphone users, 1.3 billion, in 2018, followed by India with 530 million users. India currently has in between 300-400 million smartphone users.

The Internet and Mobile Association of India (IAMAI) and market research firm IMRB International in a report titled Mobile Internet in India 2016 pointed that the number of Internet users in India is expected to reach 450-465 million. The report said overall Internet penetration in India is currently around 31 percent. There were 389 million mobile Internet users in India as on December 2016. Urban India has 51% penetration and is fast reaching saturation point, while Internet penetration in rural India is 16% and has immense growth potential.

Agarwal (2017) found that due to the greater affordability of mobile services in India especially with the launch of Reliance Jio late last year, the total monthly average mobile bill has decreased over time. The telecom and data wars have massively affected the mobile penetration. This augurs well for Internet penetration in the coming days and can pave the path for greater penetration in rural India as long as affordable handsets are available for the lower income fragments of the population.

Kallas (2017) reckoned that new social media sites are emerging and diminishing but few have stood the test of time. Facebook jumped by 60 million monthly active users from 1.94 billion in march 2017 to 2.01 billion as of June 30, 2017 (Later updated to 2.07B). The rate of growth seems to continue at 20 million active users per month. So, by the end of the year we should see 2.1 billion Facebook monthly active users.

The Next Web Report, 2017 reported the existing gender bias in social media platforms. Men still represent three-quarters of the country's active Facebook profiles. Facebook's gender imbalance in India is in stark contrast to its US audience, where 54% of the platform's active users are women. Facebook's active users in India also skew young, with more than half of the country's users below the age of 25.

Dhawan (2017) exclaimed demonetisation could have initiated the process of a changing dynamics of household savings. The newly opened accounts saw a steep hike in National Securities Depository Limited (NSDL) with 14.3 lakh accounts in 201516 to 14.8 lakh in 201617. The new demat accounts crossed 2 lakh accounts in March 2017. This is the highest witnessed account opening in the last 7 years. NSDL had more than 1.64 crore active demat accounts as on 31st October 2017.

These figures reflect how Indians are moving towards technology laden way of maintaining relationships, obtaining information, performing banking services or trading. Technological financial services are hence hitting the headlines for their potential to disrupt banking services, unbundle financial institutions, and shredding the barriers to entry by means of digital platforms. Within this new financial ecosystem, websites like Moneycontrol.com, Bloomberg and other social media platforms have gained impetus to advise or manage private wealth at the expense of conventional financial establishments and are poised to become the new price-makers of the banking relationship. The social media space has become a common place for interaction, networking, information dissemination, and content sharing. The investors on these social networks engage individuals with digital tools featuring advanced customer experience with financial ratios, peer comparison, temporal charts to guide them through a self-assessment process and shape their investment behaviour towards fundamental decision making. The ease of avoiding multifarious trading algorithms based on passive investments and diversification strategies, is overcome by the access to informal information base.

REVIEW OF LITERATURE

Demonetization and omnipresence of digital platforms has led to various studies that aim to study the impact of such policies on business and economy. However, there is a lack of empirical studies on usage of digital platforms for advisory financial services. A number of relevant studies after 2014 focus on the impact of financial innovations on the market and financial market disruptions owing to financial technologies in India.

Antweiler & Frank (2004) found that the stock messages reflect public information swiftly. Internet stock messages may be effective in insider trading studies, since the messages are time-stamped to the seconds. The time stamping aids in tracking of the price movements precisely.

Sprenger & Welpe (2010) found that online investors have matured since the introduction of message boards more than 10 years ago. It was observed that a more balanced ratio of buy and sell signals and traders no longer follower a naïve momentum strategy, but seem to endorse contrarian trading positions. Quality and content appear to be more significant than quantity, since bullishness is related to returns more strongly than message volume. The microblogging community reckons users who consistently offer high quality investment advice, although there does not exist simple rules to identify valuable pieces of information.

Schoen, Gayo-Avello, Metaxas, Mustafaraj, Strohmaier, & Gloor (2013) found that a simple trading strategy informed by the prediction method based on online user generated content –even when making a number of wrong predictions - would obtain a larger capital appreciation than that by the analyzed stock markets.

Chen, De, Hu, & Hwang (2014) found that the Internet has become increasingly popular both as a venue to place trades and as a source of information. It examined how views expressed on a popular social media website for investors pertain to security prices. It was established that opinions revealed on the website strongly predict future stock returns and earnings surprises. The predictability holds even after controlling for the effect of traditional guidance sources, such as financial analysts and news media.

G.O'Connor & L. Dillingham (2014) demonstrated that information disseminated and circulated in online forums may have a significant influence on investors and on the securities market. Thus, an understanding of that environment is critical. It was established that explicitly stating personal experience or lack of personal experience affects the quantity and quality of subsequent discussion and information exchange.

Paniagua & Sapena (2014) suggested that financial performance is affected by user-generated content in social media. It was also concluded that Twitter followers are more effective than Facebook likes at positively impacting stock prices. The effect of social media on performance depends on the penetration of social media in the stock market.

Siganosa, Vagenas-Nanosa, & Verwijmeren (2014) proposed a new measure of investor sentiment that is based on the linguistic tone of the status updates posted by millions of people on Facebook and showed that Facebook's Gross National Happiness Index had the ability to predict statistically significant and economically meaningful changes in aggregate market returns.

Tiago & ́ıssimo (2014) identified various benefits for such forums; improved information gathering and feedback, user-friendly tools, increased knowledge to name a few. It also found that message boards and stock message groups promote internal and external relationships and support decision-making process, thus leading to increased productivity and better outcome measurement.

Kochar (2016) identified that along with other recent policy initiatives in many developing economies, the financial technology policy is considered to have significant potential to boost the welfare of the poor. This is primarily because of its use of mobile technology to essentially deliver financial services at the doorstep of households, but also because of its use of local agents to encourage savings and facilitate financial transactions.

Cwynar, Cwynar, & Pater (2017) found out that the majority of surveyed finance professionals believed that social media content could be useful in tracking additional financial market returns. Interestingly, veteran financial market professionals, especially analysts, were more inclined to disregard of the potential of social media content in this respect.

Gabor & Brooks (2017) accredited that the key words are access via digital footprints – not only the ability of the 'unbanked' to access financial services, but also for financial capital to access new 'risk frontiers', within an institutional and policy framework that enables financial actors to 'de-risk' individual consumers through constant monitoring. The process of harvesting digital footprints concurrently involves the poor's use of mobile technologies and the state's increasingly digitalised social transfers, the latter in recognition that the state, through private digital entrepreneurs, can connect (poor) populations to algorithms.

METHODOLOGY

In order to identify the age and gender demographics of investors and to explore the potential of disruptive innovation – stock market groups and social media, a survey has resulted in a preliminary framework. An assessment of internal barriers to social media has also been explored.

The ubiquitous nature of social media and technology has permeated in young investors. The study surveys sample of 100 respondents on the usage and explored the ranking of the financial information on such forums. The questionnaire was prepared and uploaded on online website- surveymonkey.com and link of the survey was shared on facebook.com and investor groups on facebook. The results were tabulated in Microsoft excel.

ANALYSIS

The primary question of the analysis was if the investors referred to social media investor groups or stock market forums on websites like (moneycontrol.com) for investment advice. As shown in Table 1, despite the steep rise in demat accounts, mushrooming mobile applications and social media users in India, there is prodigious potential for stock market groups. Despite this impressive potential, it is projected that the total number of mobile social media users may be even higher; as most of the investor in India don't divulge the investment details overtly, so it's difficult to know the latest picture at a granular level, but the data suggest that social media investor groups may be the most active social platforms in a near future.

Table 1: Do You Refer to Social Media Investor Groups or Stock Market Forums on Websites Like (Moneycontrol.com) For Investment Advice?

Yes	**51**
No	49
Total	100

Table 2 displays the gender distribution of the respondents. Out of total sample, 60 per cent of the respondents are females. It shows that fairer sex is more inclined towards social media. This could be attributed to the approval and appreciation women aim to achieve from peers and informal ways of gaining information. Again, out of total respondents that refer to social media forums and stock market groups, 55 per cent of them account for women. It can be concluded that most of the males prefer adopting their own trading strategies or refer to financial experts for the advice.

Table 2: Gender

Gender	Total respondents	Respondents referring to Social Media	% Respondents referring to Social Media
Female	60	28	54.90%
Male	40	23	45.10%
Total	100	51	100.00%

Since the literature shows that social young millennial are more driven towards social media and financial technology services, it was imperative to study age groups wherein most of investors can be categorised. As shown in Table 3, the study confirms with the literature as more than half of the entire sample who refers to technology platforms fall in 25-34 age group. This is followed by fledgling investors who try their hands at investing and seek guidance from quick and unofficial sources with 39 per cent of respondents in the category of 18-24 years. There is miniscule presence of experienced investors on such social media forums.

Table 3: Age

Age	Total respondents	Respondents referring to Social Media	% Respondents referring to Social Media
18 to 24	42	20	39.22%
25 to 34	46	28	54.90%
35 to 44	4	1	1.96%
45 to 54	4	2	3.92%
55 to 64	4	0	0.00%
65 to 74	0	0	0.00%
75 or older	0	0	0.00%
Total	100	51	0.00%

The respondents were asked to rate the the quality of financial information on social media and stock market groups on 5 point likert scale ranging from Very High quality to Very Low Quality. As shown in Table 4, it was found that more that half of the respondents rate the information as high quality. However, 37 per cent of the sample is still neutral to such information forums. Interestingly, more experienced individuals were less likely to recognize this potential. This reflects that the investors are still sceptic about such information, and credibility and validity of such forums in near future could boost the potential of such forums. Only 6 per cent of sample rates the information as low quality. This suggests that Social media as an alternative information interaction channel has changed the information environment for individual stock, augmented the speed of information diffusion and therefore transformed the overall stock market behaviour.

Table 4: How Would You Rate the Quality of Financial Information on Social Media and Stock Market Groups?

Quality of financial information	Total respondents
Very high quality	16
High quality	41
Neither high nor low quality	37
Low quality	5
Very low quality	1
Total	100

CONCLUDING REMARKS

Turbulent times demand that learn how to shape the turbulence around us by creating a powerful management ensemble that travels beyond adaptation to a shaping ambition. More fundamentally, it is need of the hour to understand how the instability created by digital infrastructures can be mobilized to our advantage to shape worthwhile prospects. The days of spreading out the newspaper and ascertaining trends in the stock market are gone. The young millennials' reliance on social media and technology is conspicuously changing the face of trading. It will not be long when even seasoned investors will begin to feel the reverberations.

Albeit the benefits of quick information, time stamping of messages and ease of access to information make social media and stock market groups a lucrative knowledge base, the threats of cyber security and anonymity plagues the growth of such services. Nam (2017) recently reported that the posts with prescient numbers in the WhatsApp groups were circulated hours or days before official company statements. The messages involved prescient information of the 12 companies obtained by Reuters were characterised as being upcoming quarterly results, including specific metrics such as net profits, revenues and operating margins. It also included messages about upcoming bonus share issues or revenue guidance. The messages shared could involve lucky guesses or astute forecasts based on publicly available information, and not all metrics shared among the 12 cases were exactly the same as reported. Therefore, if fetching social media to investment ideas adds the rigor of peer review, the potential of improved returns and comes with the sense of security that comes from attentive regulators, then all that remains is for investors to ensure they behave in the right way. Investors should ensure that online investment community follows fundamental principles, as investment forums are not a place for anonymity. Transparency in terms of investor profiles and history leads to the authentic exchange of ideas.

Thus it can be concluded that opinions of financial market professionals regarding the link between social media and additional returns are mixed, which is consistent with the current body of evidence brought by sentiment-based research.

LIMITATIONS AND FUTURE RESEARCH IMPLICATIONS

There are many theoretical and methodological issues in predicting future outcomes using social media data that are far from being settled, and deeper studies and experiments are required to discover the true potential of social media as a reliable source of data.

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