The Impact of Finfluencers on Retail Investment

Isaiah Hull
Rethinc.Labs UNC
DeepLearning.AI
CogniFrame Inc.

Yingjie Qi
Copenhagen Business School

ABFER-2025

Discussant: Man Zhang
NUS IREUS

Paper Overview - Part I

- Trading platform with social features in four Nordic countries

- Users can choose to make their trading decisions public, allowing them to follow others or be followed

- **Main Findings:**
  - Who have more followers?
    - $\uparrow$ Past performance and number of trades
    - $\uparrow$ Male (inferred from username)
    - $\uparrow$ Common country and language (inferred from username)
    - $\uparrow$ Long-term rational investors (inferred from bio description)
  - Platform employee influencers' incentive:
    - Trade more products issued by the platform

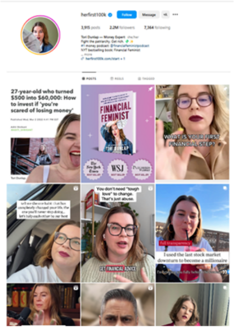
Paper Overview - Part II

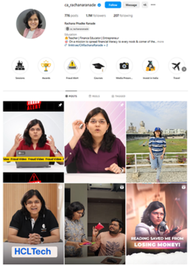
- **Causal impact of influencers on their followers**
  - Holding/trading portfolio overlap: 3.5% vs.1.6% for pseudo-pairs
  - IV: Influencers who are employees of the platform (=7) and were assigned to users at the time of account creation.
  - Estimated impact:
    - Holdings: $\uparrow$ 3.8% ; Sales: $\uparrow$ 4.6%

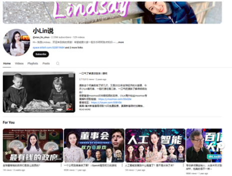
- **Heterogeneity effects**
  - *Influencers:* $\uparrow$ more followers, $\uparrow$ more central in the network,
    $\uparrow$ active in group discussion
  - *Followers:* $\uparrow$ follow fewer influencers, $\uparrow$ female, $\uparrow$ middle-aged
  - *Products:* $\uparrow$ ETFs/index; $\downarrow$ risky stocks

Finfluencers

- **Finance content creators** who share financial knowledge/advice on social media
- **Source of income:** click/view rates, ads, and rebates
- **Incentive:** increase the number of followers and the engagement







- This paper: online trading buddy peer effect

Motivation

- Kakhbod et al. (2023) finds that unskilled finfluencers attract more followers
  - Potential *conflict of interest* between maximizing follower counts and making optimal investment advice
  - *Retail investors* prone to cognitive limitations and behavioral biases, making them particularly susceptible to influence
- This paper: popular finfluencers are associated with strong performance & long-term rational behavior
  - Motivation for testing causal impact
  - Re-framing from a different angle—e.g. as an exploration of peer influence within online trading communities as oppose to existing literature that focuses on offline, real-life social networks.

Empiric - sample and measures

- Selection of users with public profile
  - # of users: 33K, number of followers: 11K
  - Total # of users on the platform: 80K in 18 mths; 300K with the brokerage firm
  - Can users follow others while keeping their own profile private?
  - What is the percentage of users who switch between private to public and vice versa?
  - Gender and age (available for 10% of sample) - infer from profile photo?
- Assumption of equal-weighted portfolio
  - Is a stock assumed to be no longer in the portfolio once it is observed to be sold?
  - Kakhbod et al. (2023): naive abnormal alpha
- Finfluencer-follower relationship measured at the time of data scraping
  - Tests conducted around the time of data scraping?

Empiric - correlation

- Pseudo Influencer-follower pair
  - all possible combinations vs combination under common characteristics (e.g. country, age etc.) serve as counterfactual for portfolio similarity?
- Calendar month as time unit
  - timing of influence on followers aligns with calendar month boundaries?
  - Time lag/price difference test design relies on this assumption

Empiric - IV strategy

- **Random / Conditional Random Assignment of Peers**
  - Shue (2013), Stolper and Walter (2019)
  - M&A driven change of peers: Dimmock et al. (2018)
  - Teaching schedule: Maturana and Nickerson (2019)
- **Testable Assumption :** For each characteristic, the observed peer similarity lies within the expected distribution under the assumption of random assignment.
- **IV : Brokerage firm employee influencers**
  - Institution background : facilitates communication — random?
  - Users are free to follow/unfollow; unfollow cost is minimal
    - Influencer-follower relationship is a static snapshot
    - Endogenous choice of whom to follow

Empiric - Alternative Design

- Exploit random shocks to the behavior of the influencer in an endogenously formed peer group
  - Bailey et al. (2018), Agarwal et al. (2020), Kalda (2020)
- Exogenous factor that affects influencer's trading decision
  - Huang et al. (2021)

- Treatment : non-mutual followers
  - follow only one influencer
  - no other directed path from influencer to followers in the network
- Control : non-followers
  - similar as the followers (i.e. gender, age, country, trading freq.)
  - no directed path between influencer and non-followers in the network

Heterogeneity Tests

- Influencer Behavior in Discussion Groups
  - Do influencers who provide more detailed information and clearer explanations for their trading decisions exert a stronger influence?
  - Does the use of persuasive or confident language enhance their impact?
- Follower Characteristics
  - Are followers with stronger behavioral biases or more irrational trading patterns more likely to be influenced?
- Social Transmission Bias (Hirshleifer (2020))
  - In a network where A follows B and B follows C, how does C's trading behavior propagate through to A?
- Comparing Online vs. Real-Life Peer Influence
  - Drawing on insights from prior literature may help contextualize the magnitude of peer effects estimated in this study.

Conclusion

- This paper assembles and analyzes a novel dataset from a trading platform with integrated social features.
- It documents evidence of *homophily* in the formation of peer groups among retail investors online.
- The analysis suggests that followers tend to imitate the trading strategies of influential users.
- The paper contributes to the growing but still underexplored literature on peer effects that emerge outside of traditional, real-world social interactions—offering valuable insights into this distinct, digitally mediated economic mechanism.
- I enjoyed reading the paper and appreciate the authors' effort. Wishing you all the best!

References

Agarwal, S., Mikhed, V., and Scholnick, B. (2020). Peers' income and financial distress: Evidence from lottery winners and neighboring bankruptcies. *The Review of financial studies*, 33(1):433–472.

Bailey, M., Cao, R., Kuchler, T., and Stroebel, J. (2018). The economic effects of social networks: Evidence from the housing market. *Journal of Political Economy*, 126(6):2224–2276.

Dimmock, S. G., Gerken, W. C., and Graham, N. P. (2018). Is fraud contagious? coworker influence on misconduct by financial advisors. *The Journal of Finance*, 73(3):1417–1450.

Hirshleifer, D. (2020). Presidential address: Social transmission bias in economics and finance. *The Journal of Finance*, 75(4):1779–1831.

Huang, S., Hwang, B.-H., and Lou, D. (2021). The rate of communication. *Journal of Financial Economics*, 141(2):533–550.

Kakhbod, A., Kazempour, S. M., Livdan, D., and Schuerhoff, N. (2023). Finfluencers. *Available at SSRN*, 4428232.

Kalda, A. (2020). Peer financial distress and individual leverage. *The Review of Financial Studies*, 33(7):3348–3390.

Maturana, G. and Nickerson, J. (2019). Teachers teaching teachers: The role of workplace peer effects in financial decisions. *The Review of Financial Studies*, 32(10):3920–3957.

Shue, K. (2013). Executive networks and firm policies: Evidence from the random assignment of mba peers. *The Review of Financial Studies*, 26(6):1401–1442.

Stolper, O. and Walter, A. (2019). Birds of a feather: The impact of homophily on the propensity to follow financial advice. *The Review of Financial Studies*, 32(2):524–563.