



The Rise of Finfluencers: A Digital Transformation in Investment Advice

Shailendra Singh¹ and Mahesh Sarva²

Abstract

The primary aim of this study is to investigate the extent to which influencers can be considered experts who fulfill the critical role of information intermediaries contributing to the efficiency of financial markets. To assess this, we assembled a manually collected dataset consisting of recommendations made by influencers. We conducted an event study to analyze both short-term and long-term effects on stocks.

The findings reveal that, on average, all stocks examined during the event window [-10, +10] days exhibit a noteworthy Cumulative Abnormal Announcement Return (CAAR). The outcome suggests that, in the short term, influencers may not be deemed as experts. In contrast, the long-term Buy-and-Hold Abnormal Returns (BHAR) were positive and also statistically significant.

Considering these results and the frequent absence of financial licenses among influencers, along with their tendency to endorse risky investments, we endorse SEBI's action in issuing a consultation paper (dated 25th August 2023) to regulate unregistered influencers. These measures are aimed at safeguarding inexperienced investors from taking undue risks and ensuring the integrity of financial markets.

JEL: G11

SDG: SDG8, Target 8.A

Keywords: SEBI, Influencers, Experts, Market Efficiency, Event Study

¹ Doctoral Scholar, Lovely Professional University, Punjab, India, and Subject Matter Expert, Regulatory Compliance, NICE Actimize, Pune, India

² Lovely Professional University, Punjab, India

1. Introduction

The Indian financial market regulator, SEBI, received numerous reports of individuals suffering substantial financial losses after following the advice of self-proclaimed financial experts, commonly known as "finfluencers" (Kakhbod, A. *et al*, 2023). The term "finfluencers," a blend of "financial influencers," is relatively recent in India, first gaining media attention in February 2021. The Coban characterized these individuals as "financial influencers who promote the enchanting world of the stock market on social media" (Coban, F. 2023). This description carries a negative undertone, implying that finfluencers often highlight the positive aspects of investing while downplaying associated risks. Consequently, many view this contemporary phenomenon with skepticism (Pflücke, F. 2022). However, others embrace this trend, appreciating its role in promoting sound financial management. The varying opinions largely stem from the diverse range of finfluencers.

The SEBI distinguishes finfluencers based on their level of professionalism and the size of their follower base. In doing so, they may not always maintain transparency or sincerity, frequently endorsing specific brokers or platforms in exchange for compensation (Lava, J. 2019).

According to the law, investment advice is defined as "a recommendation for a specific financial product from a specific provider to a specific customer". Despite many finfluencers including disclaimers such as 'this is not financial advice' in their videos, posts, or blogs, they continue to provide what essentially amounts to financial advice, particularly during exclusive events and meetings. Until now, there has been minimal enforcement of these rules, and existing regulations often contain loopholes and gray areas. Moreover, specific regulations tailored to finfluencers have not been established as it is a relatively recent phenomenon.

It's worth noting that the trend of finfluencers is rapidly growing. In 2022, retail investor share in cash market is 40.7% out of which around 24% retail investor take their investment decision based on finfluencers recommendation. This issue is especially concerning because a significant portion of finfluencers followers are young and relatively inexperienced. These individuals often lack awareness of the inherent risks associated with investing and tend to view finfluencers as financial experts, even though many of them lack relevant financial education or professional experience.

The primary objective of this paper is to provide empirical insights into the extent to which finfluencers can be considered experts serving as information intermediaries contributing to market efficiency. This study specifically focuses on finfluencers who encourage their followers to enter the world of investments and analyze the public investment recommendations they offer. To assess the effectiveness of these recommendations in generating positive abnormal returns, an event study will be conducted. This research aims to determine whether finfluencers possess the skills to select stocks and other assets effectively, thereby warranting the designation of 'experts' who play a role in enhancing market efficiency. As a result, the central research question guiding this paper is:

To what degree do finfluencers enhance the efficiency of the financial market?

Once the aforementioned question is addressed, an evaluation will be made regarding the necessity for immediate regulatory action. This evaluation will be based on the sub-question, "To what extent do finfluencers provide advice on high-risk and complex financial investments?" Given that

finfluencers are relatively new and have not been extensively researched, this research paper holds significant contemporary and scientific relevance. It also carries social importance by emphasizing the need to raise awareness about the risks associated with this emerging trend, particularly for new and inexperienced investors.

Given the intricacies of financial markets, coupled with the limited financial expertise among most finfluencers, and the potential influence of cognitive biases, I propose the hypothesis that finfluencers may not possess the capability to accurately predict the trajectory of security prices. To offer a more comprehensive analysis, this hypothesis will be articulated for both the short-term and long-term:

H1: In the short term, financial influencers do not achieve positive abnormal returns.

H2: In the long term, financial influencers do not achieve positive abnormal returns.

The structure of this paper is as follows: Section 2, the literature review, offers an overview of existing literature related to financial intermediation theory, and the concept of financial expertise. Additionally, this section aims to elucidate how finfluencers engage with their audience by introducing the finfluencers decision journey. Section 3, the methodology is detailed, outlining the research methods employed. Section 4 focused on data collection and description, provides insight into the data collection process, and presents descriptive statistics of the sample used in this study. In section 5, the study's results will be presented. Finally, section 6 will conclude the paper, summarizing the key findings, highlighting limitations, and offering policy recommendations based on the event study results.

2. Theoretical framework

2.1 The Finfluencer Trend

As per the Cambridge Dictionary (2022), an 'influencer' is defined as 'someone who affects or modifies the way other people behave.' The practice of utilizing influencers for product promotion is widespread in the field of marketing (Mero, J., *et.al.* 2023). The rise of social media has significantly expedited the process of product promotion, giving rise to the term 'Social Media influencer,' which can be described as 'someone who has cultivated a reputation based on their knowledge and expertise, with the capacity to influence others within society' (Hu, X., *et. al.* 2019).

With the recent surge in investment trends, the concept of influencers has evolved to accommodate a new subtype known as 'finfluencers.' Several factors have contributed to the growing interest in investing, including the persistently low interest rates (Gomes, F., *et. al.* 2021), the impact of the pandemic (Tashanova, D., *et. al.* 2020), and a desire to effect positive change by investing in sustainable companies (Choi, 2018). The increased enthusiasm for investing aligns with the rising popularity of finfluencers, who play a pivotal role in encouraging individuals to explore wealth-building opportunities.

Another emerging trend known as 'social trading' has further amplified interest in finfluencers (Robertson, 2021). In social trading, individuals publicly share their trades on their profiles, allowing others to engage with them and replicate their investment strategies. This concept aims

to motivate people, even those with limited knowledge of financial markets, to begin investing. The World Economic Forum (2015) has commended social trading for its cost-effectiveness and advanced features, which empower customers to take greater control of their wealth management. Nonetheless, it is important to acknowledge that this trend also carries serious consequences, such as the potential for fire sales and fraudulent activities.

Lastly, the popularity of investing has been further fueled by the Financial Independence Retire Early (FIRE) movement (Inkinen, S. 2021), which advocates for an economic lifestyle focused on achieving enough self-generated passive income to support life choices and aspirations. Attaining passive income provides individuals with freedom and flexibility, allowing them to pursue their true passions rather than adhering to traditional work schedules (Siru, 2021). The topics discussed by finfluencers often align with the concept of generating passive income through investments.

In India, the primary motivation for investment is wealth accumulation, particularly among the younger generation (Prins, *et. al.* 2021). This younger demographic is increasingly recognizing the importance of financial self-reliance in their future (Vogels, 2021). Consequently, a significant portion of the younger population turns to finfluencers for financial guidance, with statistics indicating that one in every five youngsters derives their financial knowledge from these influencers (Chen, L., *et. al.* 2023).

More than 19% of Generation Z, those born between 1997 and 2010, express their reliance on finfluencers through platforms like YouTube and blogs to gain insights into financial matters (Ahuja, S., *et. al.* 2023). This stands in stark contrast to the 5% engagement from Generation X and Baby Boomers. Consequently, one of the key reasons why finfluencers are met with skepticism is their encouragement of investment opportunities, despite a considerable portion of their followers consists of young individuals who may not fully comprehend the potential risks associated with investment.

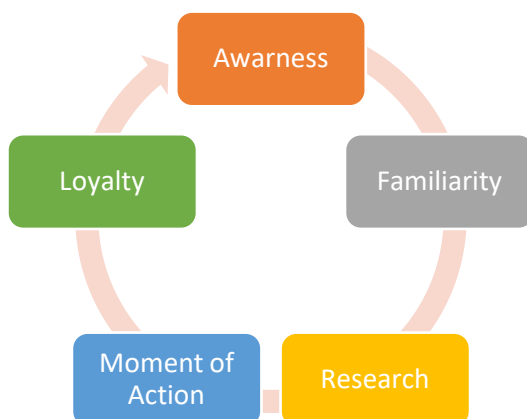
Moreover, according to Oostang J (2022), finfluencers are seen as detrimental to the field of financial advice (Oosting, J. 2022). He argues that financial advice plays a vital role in addressing significant societal issues such as sustainability, social welfare, the housing market, and financial resilience. This critical responsibility comes with stringent prerequisites for providing financial advice, including licensing by the SEBI and the requirement to maintain an up-to-date diploma through regular examinations. Additional requirements encompass aspects like compensation, transparency, and a duty of care.

Most finfluencers do not possess the necessary licenses, which means that their financial knowledge and intentions remain untested and unregulated. Consequently, their actions can have a substantial impact on society without the oversight and accountability that licensed financial advisors.

2.2 Finfluencers' decision journey

The finfluencers decision journey, comprising five distinct phases, highlights the vicious cycle.

Figure 1. The finfluencer decision journey



In the initial phase, known as the 'awareness' stage, prospective investors are prompted and become cognizant of a specific requirement or issue (Kietzmann, *et. al.*, 2018). This stage also serves as the introduction of investment opportunities. Given that finfluencers predominantly utilize social media platforms, this trigger may manifest through a social media post, video, or blog. Attention-grabbing visuals are frequently employed in this context, as they effectively capture the attention of potential investors (Milosavljevic, *et. al.*, 2012).

In the second phase, referred to as the 'familiarity' stage, the credibility of the finfluencer is evaluated. The level of credibility hinges on the finfluencer's ability to establish a connection with their followers, which is more robust when built on trust and a deep sense of affinity (Pflücke, F. 2023). Building this bond necessitates interactivity and engagement, which can be assessed by examining metrics such as follower count, the accounts they follow, content shares, likes, and comments.

In the third stage, known as the 'research' phase, individuals gather information online or seek opinions from their peers. While research indicates that celebrities and social media influencers can have a positive impact on raising awareness about a product, it's important to emphasize that people tend to place the highest trust in endorsements from individuals they know personally (Cooley, *et., al.*, 2019). As outlined by (Virlics 2013), investment decisions are typically influenced by two key factors: an investor's past experiences with profit and their speculations about future profit opportunities. Given that a significant portion of the finfluencer audience is young or lacks experience, the latter factor holds greater significance in the decision-making process. Peer pressure and the Fear Of Missing Out (FOMO) often drive individuals towards riskier investments (Carrick, 2021).

In the fourth stage, often referred to as the 'moment of action,' the investor reaches a decision to invest. This decision is influenced by their level of trust in the finfluencer and their expectations regarding the investment's potential returns. Consequently, they commit a specific amount of capital to the investment. Additionally, during this stage, individuals might choose to become part of the finfluencer's community. To gain membership, they may be required to pay a subscription fee or purchase a package deal (Pedersen, 2022). Once they become a member, many finfluencers are willing to offer more information and provide further insights into their trading portfolio.

In the final stage, if the initial investment yields positive returns, the influencer's credibility grows, and the investor transforms into a dedicated follower, setting in motion a continuous cycle. Subsequently, this investor might engage in online word-of-mouth by sharing their positive experience with others (Moran, *et. al.*, 2014). This, in turn, leads to an expansion of the influencer's follower base. Conversely, individuals who experience negative returns may lose trust in the influencer and opt to 'unfollow.' Consequently, the follower base begins to resemble an echo chamber, where positive experiences are frequently shared, thereby persuading potential new investors to embark on the influencer journey as well.

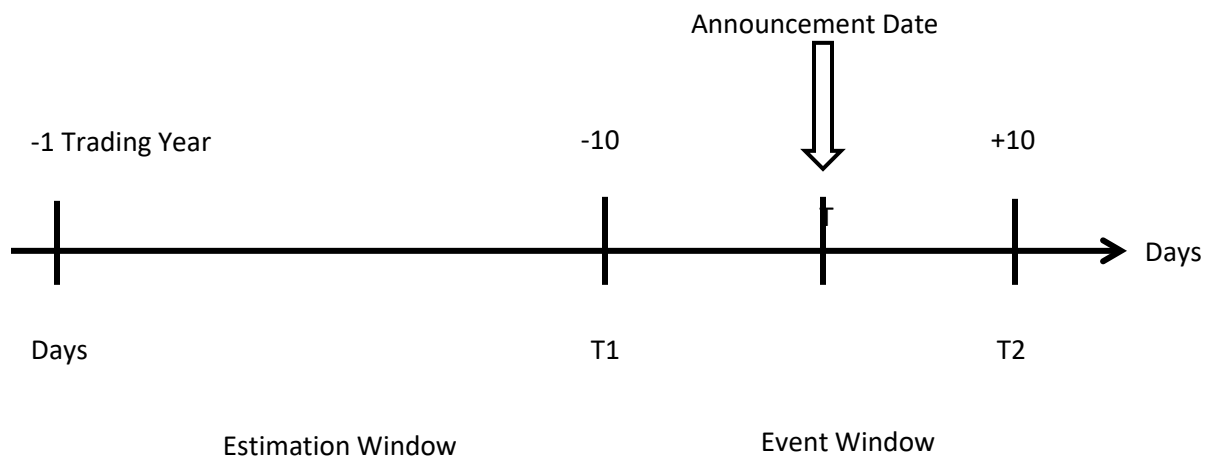
3. Methodology

In addition to conducting exploratory research and providing descriptive statistics, this paper aims to ascertain the extent to which influencers can be considered experts in the capacity of information intermediaries. As outlined in the theoretical framework, expertise in this context is defined by the ability to effectively select stocks and other assets. While possessing a financial background or experience in the field may enhance one's familiarity with asset selection, it does not serve as a definitive determinant of one's ability to do so. Hence, this study evaluates asset-picking proficiency by analyzing whether the recommended stocks have outperformed the market. To conduct this assessment, an event study is deemed the most suitable method.

The performance of the recommended assets will be assessed in both the short and long term. The short-term event window comprises the 10 days preceding the event and the 10 days following the event. The estimation window spans 260 trading days leading up to the commencement of the first event window. Below, a visual representation of the event window for the Cumulative Abnormal Announcement Return (CAAR) is provided:

Figure 2. Short-term CAAR within the event window

This figure illustrates the event window, spanning 10 days preceding and 10 days following the announcement date, which corresponds to when a particular recommendation was issued. The estimation window encompasses a period of one trading year or 260 trading days preceding the initiation of the event window.



Finfluencers frequently provide guidance on whether the recommended assets should be held for the short or long term. In addition to examining the short-term event window [-10, +10] for all recommended assets, I have conducted a separate analysis focusing exclusively on the short-term recommended assets within this event window.

Additionally, while the Nifty50 represented the Large cap Indian stock, the Nifty Small Cap 250 represented the Small cap Indian stock. Daily returns for both indices were adjusted.

The CAPM model was applied to all stocks, implying that the abnormal return for each recommendation was determined using the following formula:

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

The equation $AR_{i,t} = R_{i,t} - E(R_{i,t})$ represents the calculation of Abnormal Return (AR) for a specific asset i at a given time period t .

- $AR_{i,t}$: Abnormal Return for asset i at time t .
- $R_{i,t}$: Actual return of asset i at time t .
- $E(R_{i,t})$: Expected return of asset i at time t .

Note

In this context, the Abnormal Return (AR) measures the difference between the actual return of the asset ($R_{i,t}$) and the expected return ($E(R_{i,t})$) for that asset at a specific point in time.

$R_{i,t}$ denotes the surplus actual return of asset i at time t , which represents the return on a specific stock minus the risk-free interest rate. $E(R_{i,t})$ stands for the anticipated return of asset i at time t , and it is derived through the following calculation:

$$E(R_{i,t}) = \alpha + \beta(R_{m,t})$$

Note

In simpler terms, $R_{i,t}$ reflects how well an asset performed compared to a risk-free investment, while $E(R_{i,t})$ represents the expected return for asset i at a given time. This expectation is determined by combining an alpha (α), which signifies the asset's risk-adjusted return, and a beta (β) component, representing the asset's sensitivity to market movements ($R_{m,t}$).

The alpha and beta values were derived based on a 260 trading days estimation window. $R_{m,t}$ represents the market return at time t minus the risk-free interest rate. To calculate the Cumulative Abnormal Return (CAR), the abnormal returns observed throughout the event window were aggregated by taking their summation.

$$\widehat{CAR}_{i,t}(T1, T2) = \sum_{t=T1}^{T2} \widehat{AR}_{i,t}$$

Note

- $CAR_{i,t}$ (T1, T2) represents the Cumulative Abnormal Return for asset i over the time period from T1 to T2.
- Σ denotes the summation symbol, indicating that you should add up the abnormal returns (AR) for each observation within the specified time range.
- $AR_{i,t}$ represents the Abnormal Return for asset i at time t .
- $t = T1$ to $T2$ specifies that you should sum the abnormal returns for each time period from T1 to T2 to calculate the cumulative abnormal return for that particular interval.

Ultimately, The Cumulative Average Abnormal Return (CAAR) was determined by taking the average of the Cumulative Abnormal Returns (CAR) for all recommendations within a specific event window. The CAAR formula can be expressed as follows:

$$\overline{CAAR}_{i,t} = \frac{1}{N} \sum_{i=1}^N CAR_{i,t}$$

Note

- $CAAR_{i,t}$ represents the Cumulative Average Abnormal Return for asset i at time t .
- N is the total number of recommendations considered within the event window.
- Σ signifies summation, indicating that you should sum the CAR values for all the individual recommendations (i) during the specified time period (t).
- The formula calculates the average abnormal return by summing the CAR values for each recommendation and then dividing by the total number of recommendations (N). This provides an average measure of abnormal returns for that particular time period.

In the context of the long-term event window, the paper opts for the use of BHAR (Buy-and-Hold Abnormal Return) over CAAR (Cumulative Average Abnormal Return) due to its greater effectiveness (Khotari *et. al*, 2006). Therefore, this study calculates the BHAR on a monthly basis for 12 months following the announcement date, considering all assets and specifically those that were recommended for the long term. The calculation was performed using the following formula:

$$BHAR_{i,h} = \prod_{t=1}^h (1 + R_{i,t}) - \prod_{t=1}^h (1 + R_{m,t})$$

where, $BHAR_{i,h}$ represents the abnormal return of stock i over the period h . The term $1+R_{i,t}$ denotes the simple rate of return for asset i in month t . Similarly, $1+R_{m,t}$ represents the simple rate of return in month t for the benchmark m , which is the Nifty50 for large cap Indian stocks and the Nifty Small cap 250 for small cap Indian stocks. These benchmarks were adjusted for monthly returns.

Subsequently, a t-test was performed to assess the second hypothesis. To conduct this analysis, the mean differences between the bluechip and the small cap Indian stocks were calculated. Recognizing the difference in sample sizes, a t-test assuming unequal variances was carried out. This t-test was applied twice, once for the CAAR and once for the BHAR, to provide a comprehensive evaluation.

4. Data selection and description

Currently, there is a dearth of available databases covering finfluencer recommendations. Consequently, the data for this study were painstakingly collected manually from platforms such as Instagram, YouTube, and personal websites, as these were the primary channels utilized by finfluencers for their marketing efforts. It's important to note that numerous personal recommendations are shared in private channels or events, often requiring payment for access. Due to constraints in both time and budget, this paper focused exclusively on public recommendations, which were intended for a broad audience rather than being directed at specific individuals.

The criteria for data collection were as follows: the finfluencer had to be of Indian origin, possess a minimum of 1000 followers, and provide recommendations in a compelling manner. A recommendation was considered compelling if the finfluencer explained that a specific stock was expected to yield substantial returns within a particular timeframe, labeled it as an intriguing stock with promising prospects for a specific month or in a general context, or presented it as a noteworthy example within a sector believed to be highly profitable or indispensable in the future. Convincing recommendations often involved the finfluencer sharing their personal belief in a stock's potential for price appreciation, accompanied by subjective analyses of the firm's expectations and/or business model. Additionally, some finfluencers emphasized their ownership of the recommended stock, either verbally or by sharing images of their portfolio, aligning with the 'social trading' trend. In some instances, finfluencers also cautioned their audience against certain stocks, either because they believed the share price was overinflated and due for a correction or because they saw better alternatives. These non-optimistic stock recommendations were excluded from the analysis, with only recommendations believed to yield positive returns being considered.

Despite many finfluencers providing disclaimers such as 'this is not financial advice,' their recommendations were still included in this analysis. Often, finfluencers substantiated their recommendations by providing evidence of their own investments in the recommended stock. This, combined with their high level of enthusiasm, could enhance perceived credibility and influence many individuals to take action and purchase the asset. Even when individuals conducted their own research, as encouraged by most finfluencers, their analyses were prone to bias, especially if they lacked a financial background.

The recommendations included in this analysis span from January 2020 to March 2023. In total, 286 stock recommendations were gathered from the 20 most prominent and interactive finfluencers in India. This dataset encompasses recommendations for financial products that were recommended more than once by a single finfluencer. However, to avoid redundancy in the analysis, only the initial instance of a particular asset being recommended by a finfluencer was

considered. Additionally, due to missing or incomplete data, not all recommendations could be incorporated into the analysis. Finally, this study exclusively analyzed Indian stocks, as these categories had the largest sample sizes available for analysis.

Table 1: Summary of the count of stocks on distinct market

This table presents the number of recommendations given per stock market

Index	Number	Percentage
Nifty 50	50	17.48%
Nifty Small Cap 250	236	82.52%
Total	286	100%

A list of recommended stocks traded on alternative stock markets can be found in **Table 1**. The variance in the number of recommendations analyzed was primarily due to data unavailability. For example, recommendation made in March 2023, the extended one-year event window cannot be employed. Specifically, for CAAR and BHAR calculations, 50 Large Cap stocks and 236 small cap stocks were considered in Table 2. The stock data was amassed from Investing and Yahoo Finance.

Table 2: Number of observations per calculation

This table provides the count of observations considered in various event study computations, accounting for both short and long-term windows, specifically in relation to the stocks.

Asset	Calculation	Number of observations
Stocks	All stocks in short-term window	224
	Short-term recommended stocks in short-term window	147
	All stocks in long-term window	246
	Long-term recommended stocks in long-term window	184

5. Results

5.1 Summary statistics

To provide an overview of the findings, it's essential to categorize the recommendations made by influencers in terms of financial assets and assess whether they recommend risky financial products. These financial assets encompass a wide range of risk profiles, including blue-chip stocks, dividend stocks, growth stocks, value stocks, and penny stocks. Given the subjective nature of categorizing the 286 stocks into these groups, they have been collectively labeled. Influencers commonly emphasized their interest in seeking growth stocks with the aim of achieving high returns.

However, it's crucial for investors to recognize that investing in individual stocks exposes them to unsystematic risk, which isn't mitigated. To mitigate this risk, investors should diversify their portfolios, a task that may be challenging for many of the inexperienced young followers of influencers. Some influencers share what they describe as a 'diversified' portfolio to inspire others and enhance their credibility. Despite disclaimers urging followers not to copy their investments,

many might still choose to do so, particularly if they witness portfolios with high returns. Nevertheless, this practice carries inherent risks since many influencers lack the necessary licenses to provide financial advice, implying that their financial expertise has not been scrutinized by authorized institutions.

5.2 Stocks in the short-term event window

This paper conducted several event studies to investigate the first hypothesis, which aimed to assess whether the recommendations provided by influencers resulted in positive abnormal returns in the short term. Table 3 summarizes the findings of these event studies for both all stocks and specifically short-term recommended stocks within the short event window [-10, +10]. Additionally, various sub-periods were analyzed, including the pre-event window [-10, -1], the event day window [0], and two post-event windows: [+1, +5] and [+1, +10].

Table 3: Stocks within short-term event window [-10,+10]

This table presents the Average Abnormal Returns (AARs) for two categories: all stocks (Panel A) and short-term recommended stocks (Panel B). The significance levels are denoted by asterisks, where * indicates a significance level of 5%, and ** indicates a significance level of 1%. Additionally, "S.E." stands for Standard Error.

Days	Panel A		Panel B		
	Relative day	AAR (%)	t-statistic	AAR (%)	t-statistic
-10	-10	-0.327	-1.54	0.096	0.226
-9	-9	-0.016	-0.072	-0.455	-1.318
-8	-8	0.223	0.789	0.154	0.434
-7	-7	-0.124	-0.606	-0.087	-0.215
-6	-6	0.031	0.125	0.421	0.564
-5	-5	-0.134	-0.609	0.495	1.023
-4	-4	0.05	0.25	0.01	0.033
-3	-3	-0.313	-1.762	0.159	0.427
-2	-2	0.023	0.071	1.083	1.064
-1	-1	-0.048	-0.245	0.101	0.398
0	0	-0.293	-1.524	-0.103	-0.273
1	1	-0.497**	-2.900	-0.371	-0.98
2	2	-0.334	-1.471	-0.039	-0.091
3	3	-0.159	-0.94	-0.148	-0.434
4	4	-0.411*	-2.271	-0.45	-1.259
5	5	-0.457*	-2.355	0.158	0.414
6	6	-0.036	-0.192	-0.13	-0.537
7	7	-0.273	-1.735	-0.134	-0.42
8	8	-0.425*	-2.26	-0.252	-0.633
9	9	-0.094	-0.621	0.16	0.637
10	10	0.171	0.967	0.181	0.525
N	N	224		147	

Table 4: The table displays the Cumulative Average Abnormal Returns (CAARs) all stocks, with Panel C representing all stocks and Panel D representing short-term recommended stocks. The significance levels are denoted by asterisks, where * indicates a significance level of 5%, and ** indicates a significance level of 1%. Additionally, "S.E." stands for Standard Error.

Days	Panel C		Panel D		
	Event Window	CAAR (%) (S.E.)	T-statistic	CAAR (%) (S.E.)	T-statistic
[-10, -1]		-0.617	-0.769	2.003	1.066
		-0.804		-1.871	
[0]		-0.293	-1.524	-0.103	-0.273
		-0.193		-0.372	
[+1, +10]		-2.490**	-3.979	-1.017	-0.897
		-0.628		-1.13	
[+1, +5]		-1.844**	-3.937	-0.453	-0.002
		-0.47		-0.742	
[-10,+10]		-3.293**	-3.185	0.991	0.463
		-1.036		-2.135	
N		224		147	

Key findings from Table 4:

All Stocks Analysis:

- All stocks yielded a Cumulative Average Abnormal Return (CAAR) of -3.293% within the short-term event window [-10, +10], which is statistically significant at the 1% level.
- The post-event windows of [+1, +5] and [+1, +10] also showed statistically significant negative average returns of -1.844% and -2.490%, respectively.
- The pre-event window of [-10, -1] and the event day itself [0] provided negative returns, but these results were not statistically significant.
- Overall, this analysis suggests that, on average, finfluencers' recommendations did not result in positive abnormal returns in the short term for all stocks. Therefore, the H1 cannot be rejected.

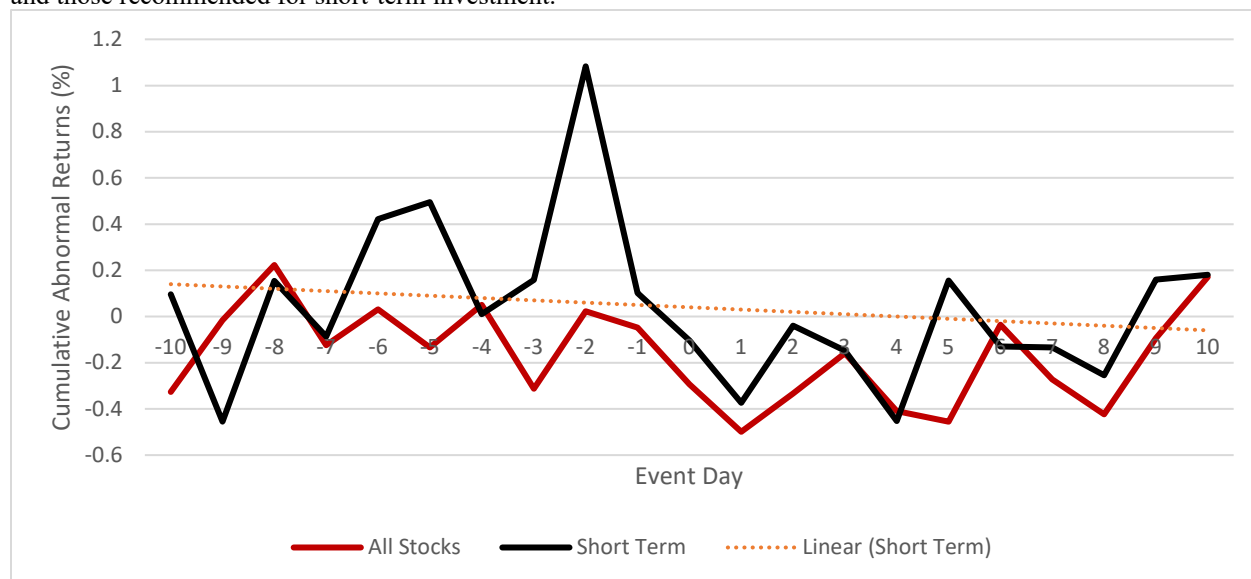
Short-Term Recommended Stocks Analysis:

- When focusing solely on short-term recommended stocks, the CAAR was slightly positive at 0.991%. However, this positive effect could be attributed to the pre-event window [-10, -1], which yielded a CAAR of 2.003%.
- The event day [0] and both post-event windows [+1, +5] and [+1, +10] showed negative returns, but these results were not statistically significant.
- In *Summary*, when considering only short-term recommended stocks within the short-event window, the first null hypothesis (that finfluencers can predict positive abnormal returns) could not be rejected based on the analysis.

These findings indicate that, on average, finfluencers did not appear to have a consistent ability to predict positive abnormal returns in the short term. While there was a slight positive effect for short-term recommended stocks, it was not statistically significant, suggesting that finfluencers' recommendations did not consistently lead to profitable short-term outcomes within this specific analysis.

Figure 3. Stocks within the short-term event window [-10, +10]

This graph displays the cumulative abnormal returns of stocks each day, highlighting the distinction between all stocks and those recommended for short-term investment.



5.3 Stocks in the long-term event window

The second hypothesis was assessed using the BHAR (Buy-and-Hold Abnormal Returns) method. Two separate analyses were conducted: one encompassing all stocks within the long-term event window and another focusing solely on the long-term recommended stocks within the same event window. Bluechip stocks were compared to the NIFTY50 index, while Dutch stocks were compared to the AEX index. Table 5 presents the outcomes of holding the recommended stock continuously on a month-to-month basis for 12 consecutive months.

In regard to all stocks, the buy-and-hold (BHAR) abnormal return stands at -0.912% over a 12-month period. However, when considering only the long-term recommended stocks, the abnormal return worsens to -2.070%, indicating a more pronounced negative trend. Despite the negative returns, their statistical insignificance prevents us from rejecting the second null hypothesis concerning stocks.

Table 5. Stocks in the long-term event window

This table presents the outcomes of the Buy and Hold Abnormal Return (BHAR) calculation method for both all stocks (Panel A) and the long-term recommended stocks (Panel B). Significance levels are denoted by asterisks, with * indicating 5% significance and ** indicating 1% significance. The abbreviation S.E. stands for Standard Error.

Months	Panel A		Panel B	
	BHAR (%) (S.E.)	T-statistic	BHAR (%) (S.E.)	T-statistic
1	1.51	1.476	0.575	0.476
2	1.455	1.166	1.081	0.056
3	1.621	0.749	1.255	0.761
4	4.375	1.619	2.917	0.944
5	3.944	1.531	2.122	0.722
6	3.373	1.903	4.647	1.431

7	4.888	1.573	3.584	1.022
8	4.987	1.485	3.648	0.972
9	3.762	1.009	4.290	0.551
10	4.334	1.933	6.635	0.498
11	5.274	1.896	6.14	1.026
12	5.912	1.986	6.070	1.371
N	246		184	

Figure 4. Stocks in the long-term event window

This graph illustrates the cumulative monthly abnormal returns of stocks, highlighting the contrast between long-term recommended stocks and the entire stock pool.



6. Conclusion

This research investigated the effectiveness of financial influencers (finfluencers) as intermediaries for financial information, specifically focusing on their stock-picking abilities. The study aimed to answer the critical question: *Do finfluencers contribute to the efficient functioning of the financial market?*

6.1 Key Findings:

Short-Term Underperformance: Finfluencer recommendations generated negative abnormal returns in the short term (-3.293%), indicating their inability to outperform the market. This suggests limited value in relying on finfluencer recommendations for quick investment decisions.

Inconclusive Long-Term Performance: While all stocks and finfluencer recommendations showed positive returns in the long term, statistical significance was lacking. This inconclusive result necessitates further research to understand the potential long-term value of finfluencers beyond short-term performance.

6.2 Policy Implications:

The study highlights the need for robust regulatory frameworks governing influencer activities, particularly by the Securities and Exchange Board of India (SEBI).

Recommendations include implementing measures such as prominent warning banners on social media platforms to protect inexperienced investors from potentially risky advice and financial losses.

6.3 Limitations:

Incomplete Data: The analysis focused solely on publicly available recommendations, potentially excluding risky advice disseminated through private channels. This introduces a risk of bias and necessitates future research exploring closed-door communication channels used by influencers.

Survivorship Bias: Reliance on public information may introduce survivorship bias, as deleted posts or removed videos could have contained negative recommendations. This emphasizes the need for more comprehensive data collection methods in future studies.

6.4 Concluding Remarks:

This research suggests that influencers' short-term stock-picking abilities fall short of expectations, raising concerns about their reliability as sources of financial information. The lack of statistically significant long-term performance adds to the uncertainty surrounding their potential value in enhancing market efficiency. To address these concerns and protect investors, stricter regulations and enhanced financial literacy campaigns are essential. Further research delving into the private side of influencer activity is crucial to gain a more complete understanding of their impact on the financial market.

References

Ahuja, S., & Grover, K. (2023). Excessive use of social networking sites and intention to invest in stock market among Gen Z: A parallel mediation model. *Journal of Content, Community and Communication*, 17(9), 63-79.

<https://doi.org/10.31620/JCCC.06.23/06>

Carrick, A. (2021). Investors make impulsive bets as they succumb to 'FOMO' and social media hype, according to Barclays. *This is Money*. Retrieved on 21 March, 2022, from:

<https://www.thisismoney.co.uk/money/investing/article-10309099/Investors-makeimpulsive-bets-FOMO-social-media-hype.html>

Chen, L., Yan, Y., & Smith, A. N. (2023). What drives digital engagement with sponsored videos? An investigation of video influencers' authenticity management strategies. *Journal of the Academy of Marketing Science*, 51(1), 198-221.

<https://doi.org/10.1007/s11747-022-00887-2>

Choi, A. (2018). How Younger Investors Could Reshape the World. Morgan Stanley. Retrieved on 17 March, 2022, from: <https://www.morganstanley.com/access/why-millennialinvestors-are-different>

Coban, F. (2023). Are finfluencers the new experts in the field of investment advice?

Cooley, D. and Parks-Yancy, R. (2019) The Effect of Social Media on Perceived Information Credibility and Decision Making. *Journal of Internet Commerce*, 18(3), 249-269. DOI: 10.1080/15332861.2019.1595362
<https://doi.org/10.1080/15332861.2019.1595362>

Gomes, F., Haliassos, M., & Ramadorai, T. (2021). Household finance. *Journal of Economic Literature*, 59(3), 919-1000.
<https://doi.org/10.1257/jel.20201461>

Hu, X., Chen, X., & Davison, R. M. (2019). Social support, source credibility, social influence, and impulsive purchase behavior in social commerce. *International Journal of Electronic Commerce*, 23(3), 297-327.
<https://doi.org/10.1080/10864415.2019.1619905>

Inkinen, S. (2021). Financial Independence, Retire Early: Practicing FIRE and Its Effects on Consumers' Lives.

Kakhbod, A., Kazempour, S. M., Livdan, D., & Schuerhoff, N. (2023). Finfluencers. Available at SSRN 4428232.
<https://doi.org/10.2139/ssrn.4428232>

Khotari, S.P. and Warner, J.B. (2006). Econometrics of event studies. *Handbook of Corporate Finance: Empirical Corporate Finance, Volume A (Handbooks in Finance Series, Elsevier/North-Holland)*, Ch. 1.

Kietzmann, J., Paschen, J. and Treen, E. (2018). Artificial intelligence in Advertising. How Marketers Can Leverage Artificial Intelligence Along the Consumer Journey. *Journal of Advertising Research*, 58(3), 263-267. DOI: 10.2501/JAR-2018-035
<https://doi.org/10.2501/JAR-2018-035>

Lava, J. (2019). Captions of influencer ads on Instagram: The impact of language on millennials' opinions and attitudes (Doctoral dissertation, Ghent University).

Mero, J., Vanninen, H., & Keränen, J. (2023). B2B influencer marketing: Conceptualization and four managerial strategies. *Industrial Marketing Management*, 108, 79-93.
<https://doi.org/10.1016/j.indmarman.2022.10.017>

Milosavljevic, M., Navalpakkam, V., Koch, C. and Rangel, A. (2012). Relative visual saliency differences induce sizable bias in consumer choice. *Journal of Consumer Psychology*, 22(1), 67-74. <https://doi.org/10.1016/j.jcps.2011.10.002>
<https://doi.org/10.1016/j.jcps.2011.10.002>

Moran, G., Muzellec, L. and Nolan, E. (2014). Consumer moments of truth in the digital context. *Journal of Advertising Research*, 54(2), 200-204. DOI: 10.2501/JAR-54-2- 200-204
<https://doi.org/10.2501/JAR-54-2-200-204>

Oosting, J. (2022). Finfluencers and their impact on the Stock Market.

Pedersen, L. H. (2022). Game on: Social networks and markets. *Journal of Financial Economics*, 146(3), 1097-1119.
<https://doi.org/10.1016/j.jfineco.2022.05.002>

Pflücke, F. (2022). Regulating Finfluencers.

Pflücke, F. (2023). Protecting Consumers and Capital Markets in the Age of Social Media: the Case of Finfluencers. Oxford BLB.

Prins, C., Groen, A. and Bos, J. (2021). Rapport Jongvolwassenen en Beleggen: Hoe jongvolwassenen omgaan met beleggen, crypto en sparen. NIBUD. Retrieved on 17 March, 2022, from: <https://www.nibud.nl/wp-content/uploads/Nibud-RapportJongvolwassenen-en-beleggen-2021.pdf>

Robertson, H. (2021). These apps are betting 'social trading' is the next big thing in investing, as millennials and Gen Zers seek advice from finfluencers and friends. *Business Insider Nederland*. Retrieved on 3 April, 2022, from: <https://www.businessinsider.nl/theseapps-are-betting-social-trading-is-the-next-big-thing-in-investing-as-millennials-andgen-zers-seek-advice-from-finfluencers-and-friends/>

Siru, I. (2021). Financial Independence, Retire Early: Practicing FIRE and Its Effects on Consumers' Lives. Aalto University School of Business. Retrieved on 17 March, 2022, from: <https://aaltodoc.aalto.fi/handle/123456789/110653>

Tashanova, D., Sekerbay, A., Chen, D., Luo, Y., Zhao, S., & Zhang, T. (2020). Investment opportunities and strategies in an era of coronavirus pandemic. Available at SSRN 3567445.
<https://doi.org/10.2139/ssrn.3567445>

Virlics, A. (2013). Investment decision making and Risk. *Procedia Economics and Finance*, 6, 169 - 177. DOI: 10.1016/S2212-5671(13)00129-9
[https://doi.org/10.1016/S2212-5671\(13\)00129-9](https://doi.org/10.1016/S2212-5671(13)00129-9)

Vogels, P. (2021). Jongeren beleggen meer, én gedragen zich volwassen: 'Ze beleggen voor de lange termijn'. Retrieved on 29 March, 2022, from: <https://www.ad.nl/geld/jongeren-beleggen-meer-en-gedragen-zich-volwassen-zebeleggen-voor-de-lange-termijn~aa079674/>