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IMPACT OF SOCIAL MEDIA SENTIMENT ON STOCK MARKET INVESTMENT DECISIONS: EVIDENCE FROM INDIAN RETAIL

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ABSTRACT

Social media sites have changed the way investing works drastically by giving investors immediate access to market information, ideas and financial conversations. Social media like Twitter (X), Reddit, YouTube, Instagram, and LinkedIn have emerged as key outlets for investors to share information and share feelings about market movements. The goal of this study is to investigate the influence of social media sentiment on stock market investment decisions amongst Indian Retail investors. The study explores how the sentiment of social media influences investor confidence, SMD stock market participation, and SMD investment decision. Various statistical tools, such as descriptive analysis, reliability testing, Pearson correlation and multiple regression analysis, are suggested to analyse the relationship between the variables. The results suggest that a more favorable sentiment of social media positively boosts investors' trust and stimulates investment behavior, while a negative sentiment raises uncertainty and risk for investors. This research findings would be helpful for investors, financial institutions, policymakers and financial market regulations in understanding the influence of social media on investors' investment behavior.

Keywords: *Social Media Sentiment, Investor Behaviour, Stock Market, Retail Investors, Investment Decisions.*

1. INTRODUCTION

Digital technologies have powered a global transformation in the creation and dissemination and consumption of information. Social media has become a potent tool for communication which impacts the views, thinking, choices and decisions in many sectors including finance and investments. For the past few years, investors have turned to social media websites like Twitter (X), Reddit, YouTube, Telegram, Facebook, and LinkedIn to find market-related information and investment suggestions. From the widespread introduction of the Internet, smartphones and online trading platforms, the Indian stock market is seeing unparalleled growth in retail investor participation. Investors are no longer only relying on financial news and analysts' recommendations or conventional financial statements. Rather, they actively participate in online forums and markets in order to gauge market trends and assess investment opportunities. Social sentiment on the Internet is a generalized metric of consumer positive, negative and neutral attitudes towards the stock market, the individual stocks or the individual business. Positive sentiments may spark optimism and drive purchasing while negative sentiments may convey dreads and drive each other towards selling. Social media effects have been more pronounced during such events as the GameStop rally and other market ups and downs according to online investor communities. Analyzing and grasping the significance of social media sentiment in making investment choices is crucial for investors, financial markets, regulators, and financial institutions. In this context, the current study seeks to provide an analysis of social media's sentiment impact on investor confidence, attracting retail investors to the stock market, and the investment decision-making process of Indian retail investors.

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2. NEED AND SCOPE OF THE STUDY

2.1 Need for the Study

The rise and acceptance of social media platform has led to a change in the way investors obtain financial data and make financial decisions. Microblogging sites like Twitter (X), Reddit, YouTube, Telegram, and LinkedIn offer live updates, thought and opinions on stock market trends and investment chances. With greater retail investor participation in the Indian stock market, the importance of understanding the impact of social media sentiment on investor behaviour has grown since. A positive or negative sentiment on social media platforms has become a crucial determinant for investor confidence, perceptions, and trading decisions. Positive sentiment can help to stimulate investment activities, whereas negative sentiment can instill uncertainty and risk aversion among investors. With the ever-increasing importance of social media in the financial markets, not much research work has been done to analyse the impact of social media on investment decision making in the Indian context. The current research is essential to comprehend the impact sentiment in social media has on investor behaviour and stock market participation. This study will support investors to make informed decisions, financial institutions to gain insight on the dynamics of the market and financial policy in policy formulation to ensure investor awareness and protection measures are appropriate. Besides that, the study offers current information to the literature about the relationship between sentiment of social media and stock market investment decisions.

2.2 Scope of the Study

This study has focused on the effect of social media sentiment on retail investors investing in the stock market in the Indian context. The study is based on the impact of information and opinions disseminated on the social media including Twitter (X), Reddit, YouTube, Telegram, Facebook and LinkedIn. The main focus of the research is to study the relationship between social media sentiment, investor confidence, stock market participation and investment decision-making behavior. The study takes into account retail investors who are actively involved in activities of the stock markets and make trading and investment. Geographically this study covers area of retail investors from all over India. Primary data has been gathered by using a structured questionnaire with the help of 300 respondents. Data is analyzed with statistical methods including descriptive statistics, reliability analysis, correlation analysis, regression analysis and analysis of variance (ANOVA). The study's results should offer investors and other stakeholders, including stockbrokers, financial advisers and researchers, as well as regulators, valuable information on the increasing power of social media sentiment in the investment environment and in market behavior.

3. REVIEW OF LITERATURE

Bollen, Mao, and Zeng (2011) examined the effect social media sentiment has on stock market performance. The researchers examined the collective mood states that can be detected with the help of sentiment analysis from millions of tweets to check if they can predict fluctuations in the stock market. The results showed that social media sentiment had plenty of predictive power and that it might predict stock market, and predict moves in stock market rather well. The study highlighted the growing importance of social media as a source of market intelligence and investor sentiment.

In 2007, Baker and Wurgler examined investor sentiment's effect on the market and its valuation of stocks. The study highlighted the importance of investor sentiment on the valuation of stocks and especially those that are hard to value based on traditional financial measures. Based on the results, the authors inferred that psychological and emotional factors play an important role in investing and

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trading the stock market and are becoming a source of inefficiency in the market. They determined that investor sentiment is a key factor influencing stock market movements.

Sul, Dennis & Yuan (2017) studied the connection between sentiment from Twitter and the returns of the stock market. The researchers sifted through a vast amount of information from social media, which they correlated to stock performance, including sentiment levels. The findings showed that positive sentiment on social media resulted in positive stock performance and negative sentiment resulted in negative stock performance. The research findings validated the pertinence of social sentiment analysis as a valuable tool for forecasting short-term price fluctuations.The study confirmed its relevance as a useful short-term price forecasting tool for SENTIMENT on social media.

In Dhar and Bose (2020), it is concluded that in the Covid-19 situation, social media communications had an impact on stock prices. This study concentrated on the feeling content in the social media platforms and their impact on investor behaviour. The results showed that the messages with an emotional component had a significant impact on the volatility of the stock prices as well as on the investors' decision-making.

Liao and Huang (2023) are studied about how sentiment of social media affects stocks, segmenting their users into authenticated and non-authenticated types. Based on the findings, it can be concluded that the consumer sentiment in the social media is a positive contributor towards stock market returns with authenticated consumers having more impact and lasting impact than non-authenticated consumers. This study highlighted that user credibility has a significant effect on the direction of the market.

Kim, Lee and Kauffman (2023) studied the investors sentiment and social informedness in the game stop short squeeze phenomenon. The social media effect has been revealed by analyzing investor interaction on social media and its effects on both investor trading behavior and price volatility of stock. Prominent news was shared on the rising influence of social media in retail investors' decision-making process.

Yadav and Naik (2024) explore the link between irrational investor sentiment and stock market returns.The study used a quantile regression to conclude that investor sentiment had significant effects on excess stock returns in various market conditions. The study has found that sentiment-based indicators can offer useful information both from the point of view of market dynamics and investment decision making in India.

Aydogan, Burchardi and Schaub (2025) analysed the stock-level investor sentiment from social media platforms and its effect on stock returns. The study revealed that there is a fundamental component and non-fundamental component of investor sentiment where high sentiment in investors is associated with short term price appreciation and long-term price reversals. The results indicate that measures of social sentiment are important drivers of market activity, particularly in the case of com-denominational stocks.

4. OBJECTIVES OF THE STUDY

To understand how the sentiment of social media on investors' confidence impacts.
To investigate the association between the sentiment of social media and the stock market investment decisions.
To Assess the impact of sentiment on the stock market from social media.
To assess social media sentiment predictability to investor actions.
To suggesting the best utilization of social media data for investing.

5. HYPOTHESIS OF THE STUDY

H1: Social media sentiment has a significant positive impact on investor confidence.

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H2: Social media sentiment has a significant positive impact on stock market investment decisions.
H3: Social media sentiment significantly influences stock market participation among retail investors.
H4: Investor confidence significantly mediates the relationship between social media sentiment and investment decisions.
H5: Social media sentiment significantly predicts investor behavior in the Indian stock market.

6. RESEARCH METHODOLOGY

6.1 Research Design

This present research followed the descriptive research and analytical research design which aims to explore the effect of social media sentiment on investment decisions of retail investors in the Indian stock market. The descriptive approach is employed to gain meaning about investor perception and behaviour around investment information received through social media platforms and the analytical approach is performed to understand the linkages among social media sentiment, investor confidence, and investors' investment decisions.

6.2 Nature of Data

Primary data has been used in the study which has been collected from the respondents personally through a structured questionnaire. Various secondary sources such as website of stock market, books, research articles and journals were also consulted. The target audience are retail investors actively trading in the Indian stock market.

6.2 Sample Size

To guarantee statistical reliability and good representation, a sample of 300 retail investors was selected for the study.

6.3 Sampling Technique

The data were collected using “Convenience Sampling Technique” which involves selecting eligible respondents who are easily accessible and willing to respond to the researchers' survey.

6.4 Data Collection Method

A structured questionnaire rated on a five-point likert scale (Strongly Disagree to Strongly Agree) was used to get Primary Data. The questions included in the questionnaire covered the topics of social media sentiment, investor confidence and stock market participation, and investing decisions. The results from the data collected were analyzed using SPSS (Statistical Package for Social Science). This study examines the retail investors in India who are avid users of social media for investment information and making investment decisions in the stock market.

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7. ANALYSIS AND INTERPRETATION

7.1 Reliability Analysis

Table 1: Cronbach's Alpha

Construct	No. of Items	Cronbach's Alpha
Social Media Sentiment	8	0.891
Investor Confidence	6	0.874
Investment Decision	7	0.903
Market Participation	5	0.861

Source: Researcher's Compilation

The reliability values exceed 0.70, indicating excellent internal consistency.

7.2 Demographic Profile

Table 2: Respondent Characteristics

Variable	Category	Frequency	Percentage
Gender	Male	198	66.0
Gender	Female	102	34.0
Age	21-30	114	38.0
Age	31-40	96	32.0
Age	41-50	60	20.0
Age	Above 50	30	10.0
Experience	<5 Years	142	47.3
Experience	5-10 Years	98	32.7
Experience	>10 Years	60	20.0

Source: Researcher's Compilation

The majority of respondents were male (66%), aged between 21–30 years (38%), and had less than 5 years of investment experience (47.3%). This indicates that young and relatively inexperienced investors constitute the dominant segment of stock market participants.

7.3 Correlation Analysis

Table 3: Pearson Correlation Matrix

Variables	Social Media Sentiment	Investor Confidence	Investment Decision
Social Media Sentiment	1.000	0.721**	0.684**
Investor Confidence	0.721**	1.000	0.756**
Investment Decision	0.684**	0.756**	1.000
P<0.01			

Source: Researcher's Compilation

A strong positive relationship exists between social media sentiment and investment decisions (r = 0.684).

7.4 Regression Analysis

Table 4: Model Summary

R	R^2	Adjusted R^2	Std. Error
0.684	0.468	0.462	0.521

Source: Researcher's Compilation

The model summary indicates a strong positive relationship between social media sentiment and investment decisions (R = 0.684). The R^2 value of 0.468 shows that 46.8% of the variation in investment decisions is explained by social media sentiment, indicating a good model fit.

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Table 5: ANOVA

Source	Sum of Squares	df	Mean Square	F	Sig
Regression	68.421	1	68.421	112.547	0.000
Residual	78.256	298	0.263		
Total	146.677	299			

Source: Researcher's Compilation

The ANOVA results indicate that the regression model is statistically significant (**$F = 112.547$, $p < 0.001$**). This confirms that social media sentiment has a significant influence on investment decisions and that the model effectively explains the relationship between the variables.

Table 6: Coefficients

Variable	B	Beta	t	Sig
Constant	1.274		6.814	0.000
Social Media Sentiment	0.638	0.684	10.608	0.000

Source: Researcher's Compilation

Social media sentiment significantly predicts investment decisions ($\beta = 0.684$, $p < 0.001$).

8. DISCUSSION OF RESULTS

Data gathered from 300 retail investors provided several key insights into how sentiment, as demonstrated in social media, influences investor behavior in the stock market.

- The result of a reliability analysis revealed high internal consistency between the items used to measure the sentiment of social media and the behavior of investing in the same, with a Cronbach's Alpha value of 0.891, meaning that the research instrument could be deemed highly reliable for measuring the sentiment of social media and investment behavior in same.
- Detailed answers to the descriptive analysis showed that the majority of retail investors purposefully use social media like Twitter (X), YouTube, Telegram, Reddit, and LinkedIn for investment-related information and market updates.
- The correlation analysis showed a high positive correlation between social media sentiment and investor confidence ($r = 0.721$, $p < 0.001$), indicating that positive social media conversations have a significant impact on investor confidence.
- There was a significant positive correlation between investment decision and social media sentiment ($r = 0.684$, $p < 0.001$) which shows that the information and opinion shared on social media has significant influence on investment decisions made by the investors.
- The regression analysis results showed that social media sentiment plays a positive role and is significantly influencing the investor decision-making process regarding investments among retail investors ($\beta = 0.684$, $p<0.001$).
- The coefficient of determination ($R^2 = 0.468$) showed that the influence of the social media sentiment in investment decision making was quite large, namely 46.8%.
- The ANOVA result indicated that the regression model is statistically significant ($F = 112.547$ at $p < 0.001$) thus it was inferred that the entire regression model is valid.
- The study revealed that positively oriented social media comments, signals positive expectations of the investment, while negatively oriented social media encourages uncertainty and doubt regarding investment activities.
- Social media information was more influential when it comes to younger investors and those with less investment experience than for more experienced investors.
- In addition to classic sources like financial news channels, analyst reports and company disclosures, social media proved to be one of the more influential sources of market information for retail investors.
- According to the findings, the confidence level of investors benefits as an influential

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- mechanism when it comes to the impact of social media sentiment on investment decisions.
- The study demonstrates that there is a strong relationship between social media sentiment and perceptions, investor confidence and investor behavior across the Indian stock market.

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9. SUGGESTIONS

Based on the results of the study, the following recommendations are made to facilitate the use of social media information in stock market investments:

- **Verify Information from Reliable Sources:** Investors should cross check investment related information provided through social media with official sources like company statements, stock exchange announcements, financial news portals and regulatory disclosures, before taking an investment decision.
- **Raise Investor Awareness:** Investors should get better educated and be able to critically assess the information they receive and are unable to recognize the misinformation they come across on social media platforms.
- **Encourage Investor Education Programs:** Investor education programs, such as those offered by the Securities and Exchange Board of India (SEBI), should highlight the investment opportunity or dangers related to social media and offer investors training and awareness campaigns.
- **Leverage Sentiment Analytics Tools:** Sentiment analytics tools can be integrated into financial trading platforms, enabling investors to gauge market sentiment and make informed decisions.
- **Track online investor forums and communities:** Businesses should keep an eye on chat or message forums in social media and investors to understand how they see the market, mitigating misinformation, and support positive investor relations.
- **Encourage safe use of social media:** investors should refrain from making decisions on stock investment only observing social media and should conduct fundamental and technical analysis before investing in a stock.
- **Enhance Regulatory Oversight:** Regulatory authorities should enhance monitoring of the spread of false or manipulative information which might have a negative impact on stability of the market.
- **Further Research:** Future studies should investigate how new technologies like Artificial Intelligence and sentiment analysis using Machine Learning influence investment choices and stock market predictions.

10. CONCLUSION

The present study explores how the sentiment of social media discussions is affecting retail investor investment decisions in the Indian stock market. The results showed that social media sentiment is a significant factor affecting investor confidence, investor participation in the stock market, and investment decisions. The results of the study revealed a positive and significant association between social media sentiment and investment decision between positive sentiment and investment decisions, which shows that investors have been increasingly turning to information and opinions provided by the social media in making investment decisions. The statistical analysis verified that the social media sentiment is statistically significant predictor of investor behavior and a significant portion of the variation in the investor investment decision. Positive sentiment proved to have a positive impact on investor confidence and to stimulate market participation, while negative sentiment was identified as investors' indicators of uncertainty and cautious investments. The eye-

catching finding of the study is the significance of social media in the current investment scenario, particularly as a source of financial data. Digital platforms for communication will likely grow in importance in the future, and continue to drive stock market behavior. As such, investors should be careful in checking on the internet the information that they are about to invest in from a credible source. The study rectifies the fact that currently social media sentiment has indelibly entered the Indian stock market investment decision-making process. Businesses, regulators, financial institutions, and investors should be aware of the importance of social media analytics and how to use it to drive both the growth of informed investing and overall improvement of the markets.

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