The effects of online financial endorsements on the investor behaviour of young retail investors

"Online financial influencers have a clear but limited effect on investment decisions"

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The digitalisation of financial services in recent years has led to a growing number of Dutch households investing to maintain or improve their wealth. Most investors opt for execution-only services and are therefore responsible for their portfolio and investment decisions. This trend has not gone unnoticed on social media, where online financial influencers (finfluencers) seek to influence those investment decisions. However, the impact of their endorsements on investor behaviour is unknown. We therefore carried out an experimental survey among young retail investors from Tilburg University to shed more light on this matter.

Principal Findings

- Online financial endorsements by influencers can assist investors in assessing the quality of investments.
- The more financially literate investors are, the less online endorsements influence them.
- Endorsements do not influence the willingness to invest but can positively influence the willingness to take investment risks.
- Finfluencers with a relatively high number of followers increase the perceived reliability of their endorsements by as much as 28.7%.
- Finfluencers claiming to be qualified to give financial advice decrease the perceived riskiness of the endorsement by as much as 13.1%.

	Willingness-to-invest	Amount Invested	Risk Perception	Consult Other Information	Reliability
Panel A: Social Proof treatment					
Social Proof	−0.083	480.75	0.220	0.260	0.746**
	[−0.91]	[1.54]	[0.86]	[1.24]	[2.24]
Control variables	Yes	Yes	Yes	Yes	Yes
N	95	31	98	104	102
R²	.	0.086	0.263	0.295	0.199
Pseudo R²	0.150	.	.	.	.
Panel B: Qualification treatment					
Qualification	0.123	132.93	−0.380	−0.216	0.061
	[1.48]	[0.43]	[−1.63]	[−1.24]	[0.19]
Control variables	Yes	Yes	Yes	Yes	Yes
N	104	32	103	107	109
R²	.	0.028	0.217	0.352	0.135
Pseudo R²	0.158	.	.	.	.
Panel C: Interaction analysis Social Proof x Finfluencer					
Social Proof x Finfluencer	0.262	−550.13	1.018	−0.160	−0.900
	[0.94]	[−1.16]	[1.09]	[−0.30]	[0.78]
Social Proof	−0.091	300.13	−0.061	0.306	1.415**
	[−0.76]	[0.70]	[−0.15]	[0.89]	[2.66]
Finfluencer	−0.122	1385.21**	−0.810	0.350	0.732
	[−1.50]	[3.84]	[−1.31]	[0.78]	[1.02]
Control variables	Yes	Yes	Yes	Yes	Yes
N	74	24	77	82	81
R²	.	0.237	0.283	0.353	0.221
Pseudo R²	0.158	.	.	.	.
Panel D: Interaction analysis Qualification x Finfluencer					
Qualification x Finfluencer	0.152	656.58	−0.243	−0.352	−0.302
	[0.61]	[0.74]	[−0.32]	[−0.59]	[−0.30]
Qualification	0.107	110.09	−0.146	0.045	0.163
	[1.18]	[0.24]	[−0.48]	[0.23]	[0.38]
Finfluencer	0.365**	−33.25	−0.764	−0.245	0.861
	[2.87]	[−0.05]	[−1.27]	[−0.66]	[1.10]
Control variables	Yes	Yes	Yes	Yes	Yes
N	82	22	82	84	86
R²	.	0.10	0.259	0.346	0.118
Pseudo R²	0.210	.	.	.	.

Table 6 – Multivariate regression analysis of first round responses

Key Takeaways for the Industry

- Where sub-optimal investment decisions prevail, financial market regulators should supervise finfluencers who claim to be qualified to advise on investment decisions as they increase an investment's perceived reliability and decrease its perceived riskiness.

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