People often turn to others for advice. While information gathered through social interactions can result in informed decisions, oftentimes, it can also mislead. Like ‘Chinese whispers’, people can distort information or only share part of it. Academics, together with financial regulators and practitioners, increasingly recognise that investors draw from each other for investment advice. But what are the consequences of information shared via ‘word of mouth’ for the quality of investors’ decisions and the overall stock market efficiency?

Professor Byoung-Hyoun Hwang from Nanyang Technological University, Singapore, and Professor Hailiang Chen from the University of Hong Kong believe investors’ conversations are strongly influenced by ‘impression management considerations’.

Investors’ desire to manage how others perceive them can influence the information they choose to share with others and even take priority over the usefulness and accuracy of the information.

‘Blindly’ following peer advice can thus lead to poor investment decisions.

Humans regularly use their conversations with others to create impressions of likeability and competence.

Investors often turn to others for investment advice, but information shared via ‘word of mouth’ can be inaccurate.

Professor Byoung-Hyoun Hwang (Nanyang Technological University, Singapore) and Professor Hailiang Chen (University of Hong Kong) believe investors’ conversations are strongly influenced by ‘impression management considerations’.

Investors’ desire to manage how others perceive them can influence the information they choose to share with others and even take priority over the usefulness and accuracy of the information.

‘Blindly’ following peer advice can thus lead to poor investment decisions.

Could impression management be a factor in what information investors choose to share with others?

Byoung-Hyoun Hwang

BUSINESS & ECONOMICS
consumption, sharing, and accuracy of quantitative and qualitative articles using server-log data from one of the United States’ largest investment-related websites, Seeking Alpha. They then conducted experiments on 840 investors.

Seeking Alpha
Seeking Alpha hosts almost one million stock opinion articles and attracts upwards of 15 million visitors each month. For every article published from August 2012 to March 2013, the researchers have data on the number of read-to-ends (a reader scrolled to the bottom of an article) and the number of shares (a reader shared an article via e-mail).

The researchers found that qualitative articles tended to be more accurate than their quantitative counterparts. Moreover, these were the articles that readers chose to read to the end. The content that readers chose to share, however, was the less accurate, quantitative material. In other words, while Seeking Alpha users chose to read more qualitative articles, the quantitative articles generated considerably more shares and subsequently became more significant in investors’ conversations.

So why would generally well-informed investors choose to share the less accurate opinions with their colleagues, friends, and family? Again, the social psychology literature notes that quantitative content is more suitable for creating impressions of intelligence and competence. Hwang and Chen suggest that if investors want to be thought of as intelligent and competent, they may wish to share the quantitative articles – even when they themselves prefer the more accurate, qualitative articles.

Impression management and choice
The second part of the study involved an experiment on 840 investors, many with net investable assets exceeding USD300,000. The researchers selected a quantitative and a qualitative article from Seeking Alpha. Both articles were given to all the participants, and the participants were asked whether they would share the article(s) with their peers. Participants were randomly assigned to two groups – a control group and a treatment group. Before being queried whether they would share the articles, the participants in the treatment group were asked to think about and describe a situation where they did not look as knowledgeable in the eyes of their co-workers. The goal of this seemingly unrelated task was to threaten the participants’ egos and boost their desire to create impressions of intelligence and competence.

After tracking which participants shared which articles, the researchers found that members of the treatment group (ie, those whose egos were threatened) were significantly more likely to share the quantitative article, showing that impression management can be a strong determinant of the content investors choose to share with their peers.

Conclusion
Hwang and Chen show that word of mouth may not be the most reliable source to inform investors’ decisions and that social interactions can mislead. In subsequent tests, the researchers also examine the consequences of investors’ reliance on word of mouth for the stock market. Their analyses indicate that an abundance of sharing can lead to overpricing.

Word of mouth may not be the most reliable source to inform investors’ decisions.