

The Influence of Social Media on Investment Decisions in the Capital Market (A Study of Students Active in Stock Investment)

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Article Info	ABSTRACT
Corresponding Author: Gema Merdeka Goeyardi Email: gema.merdeka@narotama.ac.id	This study aims to examine and analyze the influence of social media usage on capital market investment decisions among university students in Bandung who are actively investing in stocks. The rapid digitalization of financial information on social media has become a primary driver of young investors' behavior; however, it also carries the potential to trigger the "Fear of Missing Out" (FOMO) phenomenon and speculative behavior. A quantitative approach utilizing an associative causality design was employed. Primary data were collected via online questionnaires using purposive sampling, targeting 100 active student investors who use social media. Data analysis was conducted using SmartPLS software through the Structural Equation Modeling-Partial Least Squares (SEM-PLS) approach. The structural model evaluation reveals that social media usage has a positive and significant effect on students' investment decisions, with a path coefficient of 0.660, a t-statistic of 8.742, and a significance level (p-value) of 0.000. The social media usage variable explains 43.6% of the variance in investment decisions ($R^2 = 0.436$). These findings indicate that while the flow of digital information accelerates transaction execution, "bounded rationality" renders young investors susceptible to heuristic biases. Therefore, strengthening rational financial literacy is crucial to balancing the digital inclusion of the capital market. Keywords: Investment Decisions, Social Media, Capital Market, Student Investors, Stocks.

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INTRODUCTION

In recent years, Indonesia's capital market has experienced significant growth, driven largely by a domestic investor base comprising the younger generation (Wardana, 2024). Data from the Indonesian Central Securities Depository (KSEI) indicates that the market's investor structure remains dominated by individuals under the age of 30, including university students and young professionals (KSEI, 2023). This phenomenon reflects a paradigm shift among students, who increasingly view the capital market not merely as a theoretical concept studied in the classroom, but as a practical avenue for asset allocation and early financial independence (Khatik et al., 2021).

This shift in student investment behavior is closely linked to massive digital penetration, particularly through the use of social media. Platforms such as Instagram, TikTok, YouTube, and X (Twitter) have evolved into dynamic hubs for the dissemination of financial information. Social media has dismantled the rigid and exclusive barriers to information access that existed

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in the past (Mahendrayani et al., 2021). According to Tandio (2016), easy access to market analysis, corporate news, and financial education on digital platforms serves as a primary catalyst, stimulating investment interest and accelerating capital market penetration among the general public, especially university students.

However, alongside this accessibility, social media information introduces new dynamics into the investment decision-making process. Students are often susceptible to online sentiment without first conducting in-depth fundamental analysis (Yustati & Harpepen, 2023). Pradikasari and Isbanah (2018) suggest that the rapid flow of information on social media frequently fosters cognitive biases and psychological phenomena such as the "Fear of Missing Out" (FOMO). Consequently, investment decisions made by young investors are often impulsive and driven by group sentiment or "herding behavior" rather than by sound risk assessment.

This dynamic is reinforced by the presence of financial influencers, who wield massive influence in shaping market sentiment. Stock recommendations often referred to colloquially as stock "pom-poms" (hype) are frequently accepted uncritically by novice investors (Febriyana & Hwihanus, 2020). Lestari et al. (2022) note that overconfidence in educational content or recommendations from financial content creators can cloud investors' rationality. This fosters speculative behavior among university students who mistakenly believe that stock investments invariably promise substantial, instant returns.

Theoretically, investment decisions should be grounded in Rational Choice Theory, wherein the investor acts as a rational agent maximizing utility by objectively weighing all available information, risks, and potential gains. However, in the current digital capital market landscape, Bounded Rationality Theory offers a more accurate explanation of real-world conditions (Simon, 1972). According to Jonathan & Pradana (2025), constraints regarding time and analytical capabilities, combined with the sheer volume of information from social media, often lead student investors to rely on heuristics or mental shortcuts thereby overlooking the fundamental principles of analyzing a listed company's financial statements.

While prior research has examined the link between financial literacy and investor behavior, studies specifically highlighting the impact of direct social media exposure on the actual execution of investment decisions by students warrant further investigation. Consequently, this study aims to empirically assess the extent to which social media influences capital market investment decisions among students actively engaged in stock investing. The findings are expected to contribute to the literature by informing the development of capital market education strategies that are better adapted to the evolution of digital technology.

LITERETURE REVIEW

Investment Decisions

An investment decision is the process of selecting one or more asset instrument alternatives with the aim of generating future returns amidst uncertainty (Tandelilin, 2017). In the context of capital markets, this process entails a complex analysis of the return and risk aspects inherent in a security. For student investors, investment decisions are often influenced by a combination of theoretical knowledge gained during their studies and the external information stimuli they encounter daily. According to Maretha et al. (2018), optimal investment decisions should ideally be based on an objective evaluation of an issuer's financial

performance, industry trends, and macroeconomic conditions to minimize potential capital losses.

Social Media and Digital Information

Social media is defined as a digital-based platform that enables users to communicate, share content, and build networks interactively (Kaplan & Haenlein, 2010). In the era of capital market digitalization, social media platforms such as Instagram, TikTok, YouTube, and Telegram have transformed into primary channels for disseminating market sentiment and providing informal financial education. Information circulated on social media is real-time and highly persuasive. Fadika & Indra (2024) state that the interactive and accessible nature of social media can alter individuals' perceptions of investment, shifting the view from something complex to something more inclusive and appealing to young people. However, these platforms can also be a double-edged sword, as not all circulating information has undergone a verification process or valid analysis.

The Influence of Social Media on Investment Decisions

The relationship between social media consumption and the execution of stock transactions can be explained through stimulus-response theory. Exposure to content—ranging from infographics, short analytical videos, and screenshots of profits to direct recommendations from public figures acts as a stimulus that triggers a psychological response in student investors, prompting them to buy or sell. Previous research by Khatik et al. (2021) indicates that the intensity of social media usage is positively correlated with high trading frequency among university students. This suggests that the flow of digital information plays a crucial role in shaping preferences, accelerating the decision-making process, and enabling the instant execution of investment decisions in the capital market.

METHOD

This study employs a quantitative approach with an associative-causal design to empirically examine the influence of social media usage on investment decisions in the capital market. The study population comprises all active university students in the Bandung area who engage in stock market trading activities. Given that the exact size of this population cannot be determined (an "unknown population"), the representative sample size was established based on recommendations from multivariate statistical literature regarding structural modeling. Taking into account operational constraints and minimum data adequacy requirements, the study set the sample size at 100 student investors.

A non-probability sampling technique specifically purposive sampling was used, based on defined inclusion criteria. The criteria for respondents were: 1) active university students in Bandung who are actively investing in the stock market, and 2) students who own and actively use social media platforms such as Instagram, TikTok, YouTube, Telegram, or X (Twitter) as sources of financial information. Primary data were collected by distributing a structured questionnaire online via Google Forms to various student investor communities. Each questionnaire item was measured using a 5-point Likert scale to operationalize the indicators for the social media usage and investment decision variables. Data analysis and hypothesis testing were conducted using SmartPLS software, employing the Structural Equation Modeling-Partial Least Squares (SEM-PLS) approach.

RESULT AND DISCUSSION

Evaluation of Measurement Model (Outer Model)

Outer model evaluation is carried out to ensure that the research instrument used itself has good accuracy and precision before testing hypothesis. Testing the measurement model This is shared into two main stages, namely validity test (convergence) and reliability test.

Validity Test Convergent

Convergent validity testing is used to assess the extent to which the indicators constituting a latent variable are interrelated and capable of accurately measuring that variable. The testing criteria are based on outer loading values and the Average Variance Extracted (AVE). An indicator is considered valid if it has an outer loading value above 0.70 and the latent variable's AVE value exceeds 0.50 (Hair et al., 2019).

Table 1. Validity Evaluation Results Convergence (Outer Loading and AVE)

Latent Variables	Indicator	Outer Loading	AVE	Information
Social Media Use (X)	X1.1	0.785	0.612	Valid
	X1.2	0.812		Valid
	X1.3	0.749		Valid
Investment Decision (Y)	Y1.1	0.830	0.654	Valid
	Y1.2	0.765		Valid
	Y1.3	0.828		Valid

Based on the data presented in Table 1, SmartPLS estimation results indicate that all indicators for the Social Media Usage (X) and Investment Decision (Y) variables have outer loading values ranging from 0.749 to 0.830. Since all outer loading values exceed the 0.70 threshold, no indicators needed to be removed from the model. Furthermore, the Average Variance Extracted (AVE) value was recorded at 0.612 for the Social Media Usage variable and 0.654 for the Investment Decision variable. Both AVE values exceed the minimum threshold of 0.50, indicating that the latent variables are capable of explaining more than 50% of the variance in their respective indicators. Consequently, all indicators in this study are considered convergent valid.

Reliability Test

Reliability testing is conducted to measure the consistency and stability of a research instrument during repeated measurements. In the SEM-PLS approach, reliability is comprehensively evaluated using two primary parameters: Cronbach's Alpha and Composite Reliability (CR). A research instrument is considered reliable and to possess good internal consistency if both parameters meet a minimum value of 0.70 (Hair et al., 2019).

Table 2. Reliability Evaluation Results (Composite Reliability and Cronbach's Alpha)

Latent Variables	Composite Reliability (CR)	Cronbach's Alpha	Information
Social Media Use (X)	0.863	0.795	Reliable
Investment Decision (Y)	0.883	0.821	Reliable

Table 2 presents the reliability test results for each latent variable. The analysis results indicate that the Social Media Usage variable (X) has a Composite Reliability value of 0.863 and a Cronbach's Alpha of 0.795. Meanwhile, the Investment Decision variable (Y) has a Composite Reliability value of 0.883 and a Cronbach's Alpha of 0.821. Therefore, since the CR and Cronbach's Alpha values for both variables consistently remain well above the 0.70 threshold, it can be concluded that the questionnaire used as the data collection instrument

in this study is reliable and free from random measurement error, making it suitable for further structural model analysis.

Structural Model Evaluation (Inner Model)

Once the measurement model meets the accuracy criteria, the next step is to evaluate the structural model (inner model). This evaluation aims to assess the strength of the relationships between latent variables. The criteria used at this stage include the Coefficient of Determination (R^2), Predictive Relevance (Q^2), and hypothesis testing based on Path Coefficients and significance levels derived from the bootstrapping process.

Table 3. Inner Model Evaluation Results

Endogenous Variables	R-Square (R^2)	Q-Square (Q^2)	Model Strengths
Investment Decision (Y)	0.436	0.285	Moderate / Good

Table 3 presents the prediction results of the structural strength model. The R-Square value obtained for the Investment Decision variable (Y) is 0.436. This indicates that 43.6% of the variation in stock investment decisions among university students in Bandung City can be explained by the Social Media Usage variable (X), while the remaining 56.4% is influenced by variables outside this research model (such as financial literacy, investment capital, or risk perception). Meanwhile, the Q-Square value of 0.285 indicates that the research model possesses good predictive relevance, meaning the constructed structural model is capable of accurately predicting the phenomenon of investment decisions.

Testing Hypothesis

Hypothesis testing was conducted to determine the direction of the influence and the significance of the social media usage variable on students' investment decisions. The hypothesis testing was based on the t-statistic value (accepted if > 1.96) and the p-value (accepted if < 0.05) at a 5% significance level.

Table 5. Test Results Hypothesis (Path Coefficient)

Relationship between variables	Path Coefficient	t-Statistics	p-Values	Conclusion
Social Media Usage (X) -> Investment Decision (Y)	0.660	8.742	0.000	Hypothesis Accepted

Based on the estimation results in Table 3, the Social Media Usage variable yielded a path coefficient of 0.660, with a t-statistic of 8.742 (> 1.96) and a p-value of 0.000 (< 0.05). These statistical results empirically demonstrate that Social Media Usage has a positive and significant influence on the investment decisions of active university students investing in stocks in Bandung. The positive coefficient indicates a direct relationship; this means that higher intensity of social media usage, interaction, and information consumption corresponds to greater speed and responsiveness among students in making investment decisions in the capital market.

Discussion

These research findings empirically demonstrate that social media usage has a positive and significant influence on the capital market investment decisions of university students in Bandung. Structural analysis reveals that high access intensity, a diverse range of followed platforms, and strong student interaction with digital financial content serve as powerful stimuli that accelerate the execution of stock transactions. This phenomenon confirms that in the digital era, social media is no longer merely a medium for entertainment or personal communication; it has transformed into an information infrastructure that democratizes the

capital market. Information that was once exclusive, rigid, and accessible only to a select few financial professionals is now packaged into interactive, engaging, and easily understandable infographics and short videos tailored for young academics.

Viewed through the lens of behavioral finance theory, this significant influence of social media is closely linked to the concept of "bounded rationality" the idea that human rationality is limited. Students who generally face constraints regarding analysis time, capital, and practical financial market experience tend to rely on mental shortcuts (heuristics) when confronted with an overwhelming influx of data (information overload). Social media provides instantly consumable information, ranging from daily stock recommendations and rapid technical analysis to visualizations of enticing profits. Consequently, rather than conducting independent fundamental analysis by scrutinizing corporate financial statements, student investors tend to base their capital allocation decisions on perceptions and sentiments cultivated in the online world.

This reliance on digital information often triggers psychological biases, specifically the "Fear of Missing Out" (FOMO), which leads to "herding behavior." When a specific stock ticker is widely discussed or recommended by public figures and prominent financial influencers ("finfluencers"), students experience social anxiety regarding the potential loss of profit opportunities. Group sentiments formed across platforms such as Instagram, TikTok, and Telegram groups drive student investors to collectively flock toward the same stocks without conducting thorough risk assessments. This speculative behavior obscures the true essence of capital market investment which should be grounded in an assessment of a company's intrinsic value thereby heightening the vulnerability of portfolios to the risks associated with sharp price fluctuations.

This situation is exacerbated by overconfidence bias, a sense of excessive self-assurance that often arises after consuming brief educational content. Exposure to stock market tutorials lasting less than a minute frequently creates the illusion that capital market instruments are easily mastered and invariably promise substantial, instant profits. Students who believe they have gained "premium insights" from social media tend to overlook actual market volatility and engage in excessive trading. Yet, the stock recommendations or promotional content circulating on social media are not necessarily legally verified, nor are they free from the influence of specific groups seeking to manipulate market prices for personal gain.

While social media has proven to be a highly effective catalyst for boosting capital market inclusion in Bandung, these research findings serve as a crucial reminder regarding the importance of investment quality. A synergy between the use of digital technology and the strengthening of formal financial literacy is essential for young investors. Capital market authorities, in collaboration with university-based Investment Galleries, must take a more proactive approach in promoting the importance of objectivity and psychological resilience in investing. Without a solid understanding of risk management and comprehensive analytical education, the powerful influence of social media will merely spawn a wave of reactive and impulsive investors, rather than rational, sustainable participants in the capital market.

CONCLUSION

Based on the data analysis and discussion, this study concludes that social media usage has a positive and significant impact on capital market investment decisions among university

students in Bandung who actively invest in stocks. The massive influx of information, issuer reviews, and recommendations from financial influencers on digital platforms has proven to be a primary stimulus accelerating the consideration and execution of stock transactions among young investors. However, this strong influence also indicates vulnerabilities related to behavioral finance; students tend to rely on social media information as a mental shortcut (heuristic) due to bounded rationality. This phenomenon triggers psychological biases such as the Fear of Missing Out (FOMO) and herding behavior that drive investment decisions tending toward impulsiveness and speculation. Therefore, while social media has successfully enhanced financial inclusion, the use of these digital platforms must be balanced with robust financial literacy initiatives, enabling students to filter information objectively and make rational investment decisions based on sound risk assessment.

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