

## Social Media Influence and Investment Decision: Mediate Role of Investors' Sentiment<sup>1</sup>

Kapil Khanal, Shiva Raj Poudel, Subhadra Dahal & Birendra Kunwar

### Abstract

This study investigates that how social media influence on investment decision in Nepali capital market by the mediating variable of investor sentiment. The research followed descriptive and causal comparative research designs, and the data were collected from the 174 active investors. The results indicated that the social media platform has a significant effect in investor sentiment and this has in turn effect in investments. The results indicated that there was a strong and positive correlation between the factors of social media influence and investor sentiment ( $\beta = 0.760$ ), and between social media and investment decisions ( $\beta = 0.388$ ). Similarly, investor sentiment also showed a significant positive effect on investment decisions ( $\beta = 0.289$ ). Moreover, the indirect effect of the social media on the investors' decision through the mediator investor sentiment was significant ( $\beta = 0.219$ ), which implies that this effect is partially mediated. The study found that social media is not just a source of information, but also influences investors' emotional and behavioral reactions that in turn drive their investment decisions. The results indicate the increasing behavioral and psychological role of digital media in the financial markets, especially emerging markets like Nepal where investor education and regulation are still in their infancy.

**Keywords:** Social media influence, investor's sentiment, investment decision

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## **Introduction**

The digital age has witnessed a revolution in how people get and use financial information through social media, like Facebook, TikTok, YouTube, Twitter and Instagram. The platforms have not only become a social interaction platform, but also an important channel for investors to share stock tips, market analysis, and immediate reactions to market events (Zhang & Swanson, 2022). The dynamic nature of social media creates investor sentiments and influences investment decision-making rather than traditional financial news outlets, which are usually more professional and formal in their process of generating contents (Bollen et al., 2011).

Until now, investment decisions were mostly made by financial advisors, institutional research and conventional news sources. In recent years, however, due to the spread of information through social media, retail investors have also turned to information produced by both professional analysts and other investors (Chen et al., 2014). This has created a new landscape of "finfluencers" and online investor communities which can influence market movements and at times result in extreme volatility like the GameStop short squeeze of 2021 (Lyócsa et al., 2021).

Social media has been shown to have a positive impact on information sharing and collective intelligence among social media users, which in turn influences the processes of financial decision making (Kapoor et al., 2018). Moreover, investor groups created via social media help spread of news, rumours and opinions in the market quickly that can have a major impact on trading behaviours and market dynamics. This effect can be especially prevalent in times of market volatility, when investors look to online forums for guidance and validation. The increasing reliance on social media to gather investment information also poses big problems. Many retail investors have not received formal financial education, and the current regulatory oversight of financial content online is insufficient, which may cause them to be susceptible to misinformation, rumours and speculations. Information, which is not verified, can spread within social media, causing herd behaviour, irrational investment decisions, and excessive market volatility (Baker & Ricciardi, 2014).

However, in developing markets like Nepal, where financial literacy is fairly low, investors might find it hard to identify reliable information from misleading information. Consequently, social media can be an excellent source of information and at the same time contribute to market inefficiencies, which warrants a more robust programme of

investor education and the development of better regulatory measures to enable investors to make informed and responsible decisions. Adhikari et al. (2025) have studied the effect of behavioural biases on investment decision making and found that behavioural biases have significant impact on investment decision making, especially in emerging financial markets like Nepal where there is a lot of market inefficiency and information asymmetry. Traditional finance theory assumes individuals can act rationally in investment decisions, and have complete information, but behavioral finance argues that investment behavior is affected by psychological traits and cognitive biases. When deciding on an investment opportunity, investors make rational decisions, but may do so in a manner that is systematically flawed due to mental shortcuts, emotions, and subjective judgments. In emerging markets, with less precise and timely financial information for widespread use, the tendency to behave this way is even stronger and has an even greater impact on the outcome of financial markets.

The results also show that biases, such as overconfidence, representativeness, herding and risk perception, have a significant impact on investors' interpretations of market information and trading behavior. Individual investors must rely on informal information sources, word of mouth and social networks because of the prevalence of information asymmetry rather than on objective financial analysis. As such, investment decisions may be made based on sentiment and speculation, rather than fundamental market indicators, which could lead to excessive volatility and less market efficiency. These observations highlight the need to recognize the psychological aspects of investor behavior to account for anomalies which can't be explained by traditional financial theory.

Although research has been conducted to date on the direct impact of individual behavior biases on investment decisions, few studies have explored the role of new sources of information, such as social media, on investors' behavior in addition to the impact of psychological factors. As more people in Nepal are using social media platforms with a growing frequency, there is a huge gap in the knowledge of how far social media is influencing investment decision making with regard to behavioral biases. Hence, this study aims to fulfill the gap and investigate the relationship between social media consumption and its impact on investment decision making among investors in the Nepal Stock Exchange (NEPSE), which in turn contributes to the emerging field of

literature on digital information environment of emerging markets by considering the mediating role of investors' sentiment

## **Literature Review**

### **Investment decision**

Investment decision is the final product of the rational analysis and behavioral aspects of investors in allocating resources. Traditional finance theory holds that decisions are made using the risk–return paradigm (Fama, 1970), whereas behavioral finance demonstrates the important role of emotions, sentiment, and biases in real-world decision making (Shefrin, 2000). Empirical evidence shows that investor sentiment (Baker & Wurgler, 2007) and attention-grabbing information (Bollen et al., 2011; Chen et al., 2014) are key determinants of buy, sell or hold decisions. Most importantly, decisions in emerging markets are even more sentiment based, because the information available is less reliable (Rao and Srivastava, 2014). Therefore, investment decision is used as the dependent variable because it reflects the interaction between social media influence and investor sentiment on the investor's investment behavior.

### **Social media and investment decisions**

Social media is now playing a significant role in investment decisions as it quickly drives the spread of financial data and influences investors' perception. Research indicates that investor actions are driven by trends, opinion and conversations on social media such as Twitter and StockTwits. For instance, Bollen et al. (2011) showed that the public mood obtained from Twitter could predict stock market movements, and Chen et al. (2014) reported that the sentiment from social media playing a significant role in short term trading decisions. For emerging markets, Rao and Srivastava (2014) noted that social media comments either fuel optimism or negativity, which in turn have a direct effect on buying, holding, or selling decisions.

Investors have come to rely on social media as a vital tool to access and share financial information. Past studies demonstrated that online platforms like Twitter and stock forums can deliver live market signals that impact traders' decisions (Bollen et. al, 2011). Online conversations and posts and recommendations have become a growing factor in investor's decision making, and some studies have indicated that the volume of social media activity before an investment is a good indicator of stock returns and trading volume (Zhang et al., 2011). Also, the credibility and quality of information found in social media can influence investment decisions, and information from credible sources

are more likely to be followed through (Oh & Sheng, 2011). The results confirmed a positive direct link between social media influence and investment decisions as expected. The results indicate that social media is not just a source of information for investors, but also influences their emotional reactions and investment decisions.

*Research Hypothesis (H<sub>1</sub>): Social media has a significant positive impact on investment decision.*

### **Social media and investors' sentiment**

Investor sentiment is the overall mood, positivity, or negativity of investor players. Social media is a key contributor to this sentiment, by helping to spread conversations, stories, and feelings about financial information. Research has demonstrated that these types of mood measures can be computed as aggregate measures on social platforms like Twitter, and that these aggregate measures can predict stock market performance (Sprenger et al., 2014). Moreover, sentiment effects can arise from online forums due to the presence of significant discussion around a given asset, which can amplify the sentiment of optimism or pessimism (Barber & Odean, 2013). All this evidence indicates that exposure to social media can have a positive impact on investor sentiment.

Social media platforms have become an effective tool to influence investor sentiment, and can rapidly and widely disseminate new information, opinions, and rumors. Studies have revealed that online forums and user generated content can affect investor confidence in the market and often plays a more significant role in their feelings of optimism or fear in the market than the financial reports. For example, Da et al. (2011) have shown that the number of search queries online can be used as a proxy of investor attention and as a sentiment indicator, and predicts future stock price changes. The discovery indicates the high influence of the online environment, both on and through the mood of investors. Likewise, Bollen et. al (2011) illustrated that public mood indicators based on tweets were capable of forecasting fluctuations in the Dow Jones Industrial Average based on Twitter data, revealing the predictive power of sentiment as measured by social media. This relationship is corroborated by further studies. Investors rely heavily on information from social media platforms and it has been proven that the sentiment of investors on social media platforms, such as StockTwits, has a significant impact on the price of the stocks it indicates, according to Chen et al. (2014). Similarly, Yang and Brown (2016) found that these online forums and social platforms not only offer market

information, but also can influence perceptions and thus evoke greater emotional responses, such as enthusiasm or panic. In emerging markets, where the traditional channels of information transmission are less developed. Rao and Srivastava (2014) noted that as the social media chatter increases in optimism or pessimism, investment attitudes become aligned. More recent work by Yu et al. (2018) also found a high correlation between sentiment reported from Chinese social media platforms and trading behavior, indicating that sentiment is now a part of the discourse process.

The empirical analyses found that social media can not only serve as a medium for transmitting financial information, but can also meaningfully affect investor perceptions of market signals, investor sentiments, and the emotions of investors. Based on the empirical discussion, the study develops the following hypothesis:

*Research Hypothesis (H<sub>2</sub>): Social media has a significant positive impact on investors' sentiment.*

### **Investors' sentiment and investment decisions**

Trading behavior and market outcomes are greatly influenced by investor sentiment. Optimism can stimulate greater risk taking and trading on the part of investors, while a pessimistic mood can stimulate selling or a pullout from the market (Baker & Wurgler, 2006). Empirical studies have found that sentiment measures based on sentiment online activity are directly connected to investment decisions including the timing of the investment and the choice of stock (Da et al., 2015). This illustrates that there is a clear path with a positive relationship between investor sentiment and investment decisions.

Behavioural finance theory suggests that the investor sentiment plays a significant role in the decision-making process because investors are not always rational and may sometimes be emotional, have perceptions and biases. Prospect theory (Kahneman & Tversky, 1979) indicates that individuals have different values of gains and losses, and choices made when they are faced with risk are influenced by fear, optimism, or overconfidence. This is in contrast to the efficient market hypothesis (Fama, 1970) which has a rational and efficient pricing assumption. In practice, however, a large body of research, such as that of Baker and Wurgler (2007), has shown that investor sentiment has a significant influence on trading and stock prices, making investor sentiment less a function of fundamental analysis. In certain instances, Brown and Cliff (2004) found that investor sentiment would affect investors' investment behaviors, with higher positive

sentiment leading to riskier investments and higher negative sentiment leading to more conservative investments. These results indicate that investors' sentiment plays an important role in determining investment decisions.

Social media has become a powerful way to shape investor sentiment, and rapidly spread financial information, rumours and market indicators. In the information cascade theory, there is an idea that individuals can follow the behavior of others, and, in the case of social media discussion, investors can look for patterns of this behavior (Bikhchandani et al., 1992). Similarly, signaling theory states that the posts, comments and recommendations in social networks have a signal effect on the investor's expectations (Spence, 1973). The above correlation is supported by empirical studies. Engelberg et al. (2011) showed that the online searches can predict market movements as changes to investor sentiment can be detected in the search. Social interactions such as those on Twitter also affect investors' perception, and can lead to herd behavior as found by Yang and Brown (2016). In this way, the social media will trigger emotional reactions and expectations of investors that will affect their sentiment towards particular stocks or markets. Based on the empirical discussion, the study develops the following hypothesis: *Research Hypothesis (H<sub>3</sub>): Investors' sentiment has a significant positive impact on investment decision.*

#### **Mediating role of investor sentiment**

Combined, previous research indicates that social media plays a direct and indirect role on investors' financial choices, as a result of the sentiment created by investors. Emotion reactions to online discussions or narratives go one way, either positive or negative, that influence optimism or pessimism, and then the choices that the investors make in trading. Therefore, investor sentiment is a mediating factor in the environment between the social media influence and investment choices (Baker & Wurgler, 2007).

Investor sentiment is a mediator between social media influence and investment decision, which can be explained using the stimulus-organism-response (SOR) model. As per espoused theory by Mehrabian and Russell (1974), the stimulus is the social media influence, the internal state of the organism is investor sentiment, and the response is investment decision. While not always directly influencing buying or selling, social media can influence the mood, optimism or fear of investors, which in turn could dictate their buying or selling behavior. This is a pathway that has been supported by empirical

research. For instance, Yu et al., (2018) reported that social media platforms have a significant impact on investor sentiment, which further influences the decisions that they make regarding their investments. Likewise, Rao and Srivastava (2014) highlighted how a wave of optimism or pessimism in the social media buzz ultimately affects decision-making in emerging markets. These studies reveal that investor sentiment directly affects the investor's decision to invest and that it is an important factor linking external information sources to actual investor investment behavior.

From these theoretical and empirical findings, it may be proposed that investor sentiment plays a significant role in the investment decision making process, social media has a significant influence on investor sentiment and investor sentiment acts as a mediator between social media influence and investment decisions. After considering the discussion the research hypothesis for the intended study would be:

*Research Hypothesis (H4). Investors' sentiment has a significant mediating effect between social media and the investment decision.*

**Table 1**

*Review Matrix*

<b>Authors &amp; Year</b>	<b>Variables</b>	<b>Methodology</b>
Baker and Wurgler (2006)	Investor sentiment, investment decisions (stock returns, portfolio choices)	Development of investor sentiment index; regression analysis
Chen et al., (2014)	Social media opinions, stock performance	Statistical analysis of social media posts & market outcomes
Barber and Odean (2013)	Investor sentiment, herding via social influence, investment decision	Empirical analysis of individual investors' trading accounts
Bollen et al., (2011)	Social media sentiment (Twitter mood indicators), investor sentiment, stock market movement (investment decision proxy)	Sentiment analysis of 9.8 million tweets; time-series correlation with stock indices
Da et al., (2015)	Investor sentiment (Google search index), investment decision (stock returns, trading intensity)	Quantitative study using search-based sentiment index and market data
Tang and Yang (2018)	Social media 'noise', price anomalies	Empirical analysis with market efficiency framework
Liu et al., (2020)	Social media influence, herd behavior	Survey data & behavioral econometrics
Adhikari (2022)	Social media content, investment decisions	Survey-based research in emerging market context
Khadka and	Social media influence, investment	Quantitative survey in Nepalese

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Chapagain (2022)      decisions, financial literacy      investor population

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Based on the theoretical and empirical evidences, the conceptual framework formulated for the study is as follows:

**Figure 1**

*Conceptual Framework*

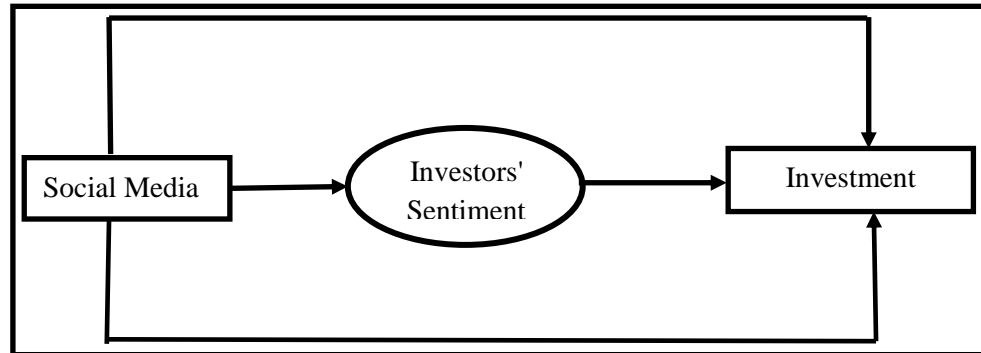


Figure 1 show the conceptual framework of the study where investment decision is the dependent variable, social media influence is the independent variable and the investor's sentiment is the mediating variable.

**Table 2**

*Description of the Variables*

Variables	Types	Description
Investment decision	Dependent variable	Actions like stock purchases, trading frequency, portfolio changes
Social media Influence	Independent variable	Social media usage intensity, content quality, source credibility
Investors' sentiment	Mediating variable	Emotional and cognitive reactions to social media content

**Research Methodology**

The study is based on descriptive and casual comparative research design that aims to understand the impact of social media on the investor sentiment and investment decision in the Nepali capital market. The primary data were gathered from 174 active investors by means of a structured questionnaire having 5 points Likert scale. The questionnaires were sent out both online and offline, providing respondents with as broad a geographical coverage as possible, and purposive sampling was used to select those

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with first-hand experience or knowledge of the stock market, and of financial matters on social media.

The data of the respondents were summarized by descriptive analysis and to test cause and effect between the exogenous variables to endogenous variable, circular design was used. The test of relationships, hypothesized and mediation effects were conducted through confirmatory factor analysis and structural equation modeling (SEM). The ethical principles of informed consent, confidentiality and voluntary participation were followed. This methodical approach provides strong and reliable information on the effect of social media on investor sentiment toward investments and ultimately on investment decisions in Nepal.

Data analysis is based on the computer software Smart PLS 4. Descriptive statistics present the characteristics of the respondents and the distributions of the key variables. Diagnostic tests such as reliability test, Variance Inflation Factor (VIF) for multicollinearity also has been conducted to validate the model. The regression models used for the study are as follows:

$$ID = \beta_1 + \beta_2 SMI + \varepsilon \quad \dots (1)$$

$$IS = \beta_1 + \beta_2 SMI + \varepsilon \quad \dots (2)$$

$$ID = \beta_1 + \beta_2 IS + \varepsilon \quad \dots (3)$$

### Results and Discussion

In this section of the study, the results obtained from the statistical analysis were presented and analyzed.

**Table 3**

*Demographic Analysis*

	Details	Frequency	Percent
Gender	Male	126	72.4
	Female	48	27.6
	Total	174	100.0
Age Group	Below 30	60	34.5
	Between 31 – 40	66	37.9
	Between 41 – 50	42	24.1
	Above 50	6	3.4
	Total	174	100.0
Education Qualification	Secondary	19	10.9

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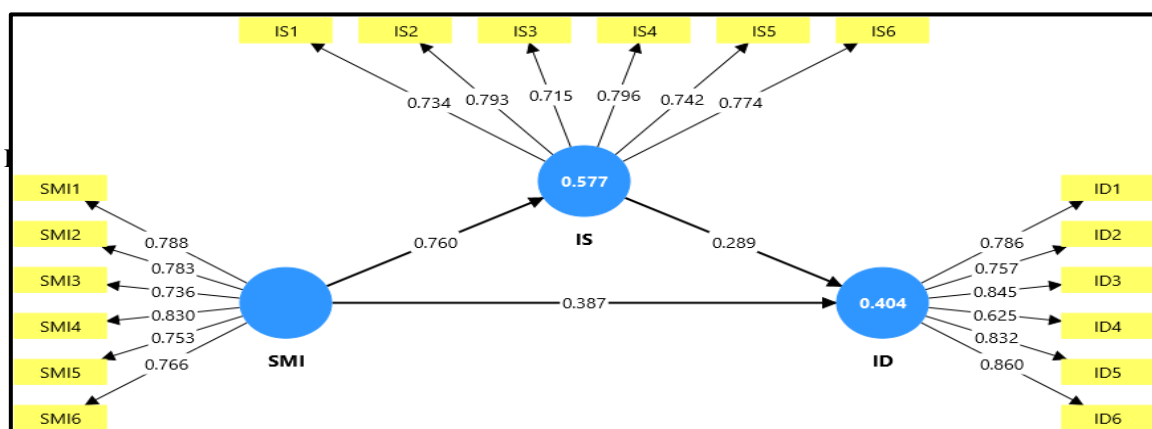
	Bachelor	50	28.7
	Masters	93	53.4
	MPhil/PhD	12	6.9
	Total	174	100.0
Years of Experience	Less Than 5 Years	96	55.2
	5 - 10 Years	48	27.6
	Above 10 Years	30	17.2
	Total	174	100.0

Table 3 shows that the demographic profile of respondents. From the results, it can be observed that the majority were male (72.4%) and the females were 27.6 percent. In terms of age, most investors were between 31–40 years (37.9%) and below 30 years (34.5%), followed by 41–50 years (24.1%) and a small proportion above 50 years (3.4%). More than half of the respondents held a Master's degree (53.4%), 28.7 percent had a Bachelor's degree, 10.9 percent had secondary education and 6.9 percent had a Master of Philosophy/PhD degree. Regarding investment experience, the largest group had less than five years of experience (55.2%), 27.6% had between 5–10 years, and 17.2% had over 10 years. These characteristics suggest that the sample is composed of relatively young, well-educated, and early- to mid-career investors who are actively engaged in the Nepali capital market.

The results of confirmatory factor analysis are presented in figure – 2. The measurement model indicates that the constructs are measured using six reflective indicators all with decent standardized factor loadings. All the factor loadings for social media influence (SMI) are ranges from 0.736 to 0.830 and for investors' sentiment (IS) 0.715 to 0.796 which are above the minimum threshold of 0.70, which indicates the good indicator for reliability (Hair et al., 2019). Similarly, the factor loadings of Investment decision (ID) are ranges from 0.625 to 0.860. Even though the factor loading of an item (ID4 = 0.625) is slightly lower than 0.7, it is still acceptable if the overall reliability and AVE of the construct are good (Hair et al., 2014; Fornell & Larcker, 1981). So, the overall reliability would be tested in the upcoming section.

**Figure 2**

*Factor Loadings*



**Table 4**  
*Test of Reliability*

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
IS	0.854	0.860	0.891	0.577
SMI	0.868	0.873	0.901	0.603
ID	0.875	0.885	0.907	0.621

Table 4 shows the results for the test of reliability. The results show that the reliability statistics are good, which further strengthen the measurement model. For IS (Investor Sentiment), the Cronbach's alpha is 0.854, composite reliability ( $\rho_a = 0.860$ ,  $\rho_c = 0.891$ ), and AVE = 0.577. For SMI (Social Media Influence), Cronbach's alpha is 0.868,  $\rho_a = 0.873$ ,  $\rho_c = 0.901$ , and AVE = 0.603. Similarly, for ID (Investment Decision), Cronbach's alpha is 0.875,  $\rho_a = 0.885$ ,  $\rho_c = 0.907$ , and AVE = 0.621. Cronbach's alpha values are greater than the minimum acceptable limit of 0.70 (Nunnally & Bernstein, 1994), which indicates good internal consistency. All of the composite reliability values are greater than 0.85 and higher than the 0.70 threshold, which validates construct reliability (Hair et al., 2019). The convergent validity is very good with AVE values exceeding 0.50, meaning that over 50 percent of the variance in the indicators is accounted for by their latent constructs (Fornell & Larcker, 1981). All these findings indicate good reliability and validity of the constructs, in line with the psychometric standards. Thus, the results indicate that the construct reliability is acceptable, which indicates the robustness of the measurement model.

**Table 5**  
*Discriminant Validity – Fornell-Larcker Criterion*

	ID	IS	SMI
ID	0.788		
IS	0.583	0.760	
SMI	0.607	0.760	0.777

Table 5 shows the results of discriminant validity. Fornell–Larcker criterion was used to test the discriminant validity of the constructs. The square root of the AVE values for each construct is shown on the diagonal (ID = 0.788, IS = 0.760, SMI = 0.777). These values are higher than the corresponding inter-construct correlations (ID–IS = 0.583, ID–SMI = 0.607, IS–SMI = 0.760), which suggest that each construct has more variance shared among its indicators than with the other constructs. This meets the test for discriminant validity (Fornell & Larcker, 1981), which indicates that the latent constructs

are empirically separable and measure different aspects. This is another indication of the validity of the measurement model.

**Table 6**

*Test of Goodness of Fit*

	R-square	R-square adjusted
ID	0.404	0.397
IS	0.577	0.575

The explanatory power of the structural model was evaluated based on the R-square values. For the investor sentiment, the R-square is 0.577 (adjusted R-square = 0.575) which means around 57.7 percent of the investor sentiment is explained by the social media influence. R-square = 0.404 and adjusted R-square = 0.397 for the investment decision, which means that 40.4 percent of the variance in investment decision can be explained by the combination of social media influence and investor sentiment. The R square values of 0.26, 0.13, and 0.02 are considered as large, medium, and small respectively (Cohen, 1988). Hence, investors' sentiment has a considerable explained variance, and investment decision a moderate explained variance. These results suggest that the model has a satisfactory level of predictive power and demonstrates the significant role of social media and sentiment in shaping investment decisions.

**Table 7**

*Test of Multicollinearity*

Variables	VIF
SMI -> IS	1.000
IS -> ID	2.367
SMI -> ID	2.367

The assessment of collinearity was carried out using the Variance Inflation Factor (VIF). The results indicate that SMI → IS has a VIF value of 1.000, while IS → ID and SMI → ID both show VIF values of 2.367. According to Hair et al. (2019), VIF values below 5.0 suggest that multicollinearity is not a concern in PLS-SEM models. Similarly, Kock (2015) suggests that even stricter thresholds such as 3.3 can be applied, and these results still fall well within the acceptable range. Therefore, the predictors in the model do not exhibit multicollinearity problems, and the structural paths can be interpreted without bias caused by collinearity.

**Table 8**

*Path Coefficients*

	Original	Sample	Standard deviation	T statistics	P values
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	sample (O)	mean (M)	(STDEV)	( O/STDEV )	
SMI -> IS	0.760	0.762	0.038	20.248	0.000
SMI -> ID	0.388	0.394	0.125	3.110	0.002
IS -> ID	0.289	0.287	0.128	2.251	0.024
SMI -> IS -> ID	0.219	0.217	0.097	2.262	0.024

Table 8 shows the evidences of the path relationship from the structural equation modeling. The direct path coefficient of social media influence on investors' sentiment is positive and significant ( $\beta = 0.760$ ) at 1 percent level of significant, confirming that social media plays a significant positive role in investors' sentiment. Similarly, direct path coefficient of SMI on ID is also positive and significant ( $\beta = 0.388$ ) at 1 percent level of significant, showing that social media directly influences investment decisions. Likewise, IS has a significant positive effect on ID ( $\beta = 0.289$ ), suggesting that investor sentiment contributes to investment decision-making. In addition, the indirect effect of SMI on ID through investors' sentiment is statistically significant ( $\beta = 0.219$ ), indicating partial mediation. This suggests that social media can impact on investment decisions both directly and indirectly.

### Discussion

This study identifies that the influence of social media has significant positive impact on investor sentiment and investment decision. The results support the current literature indicating that social media has turned into a significant resource for investors when it comes to financial information and market signals. It confirms the findings of Bollen et al. (2011), Sprenger et al. (2014) and Chen et al. (2014) that social media communication, opinions and feelings are having a significant impact on investor behaviour and market activities. Furthermore, a positive link between social media influence and investment decisions is confirmed, consistent with the results of Zhang et al. (2011), Oh and Sheng (2011), and Khadka and Chapagain (2022), which revealed that information spread via social media has a significant impact on investors' buying or selling decisions. The results suggest that social media is not only a medium of information exchange but also a behavioral stimulus that influences investment behaviors, especially in a nation like Nepal where retail investors are more and more turning to digital platforms for information.

The study also finds that investor sentiment has a significant relationship with investment decisions and also partially mediates between social media influence and investment decisions. The discovery conforms with the view of the behavioral finance literature which has been developed by Baker and Wurgler (2006, 2007), highlighting

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that beyond rational motivations, sentiment plays an important role in determining investment behavior. The finding is also consistent with the findings of Brown and Cliff (2004); Da et al. (2015) who reported that investor sentiment had a large impact on trading activity and investment decisions. Furthermore, the significant mediating effect supports the theoretical assumption of the Stimulus-Organism-Response model (Mehrabian & Russell, 1974) which suggests that social media is an external stimulus, investor sentiment is an internal psychological state, and investment decision is a behavioural response. Rao and Srivastava (2014); Yu et al. (2018) reported similar findings that the optimism or pessimism created by the social media impacts investor sentiment and hence investment behavior. Hence, it is concluded from the findings that the impact of social media is beyond the direct information dissemination and it also influences the investors' emotions, perceptions and expectations, which further highlights the importance of behavioral factors in the investment decision-making process for emerging capital markets like Nepal.

### **Conclusion**

The study concludes that social media is an integral part of the investment sentiment and investment behavior in the financial market in Nepal. The results show that the influence of social media on investors' investment decisions is direct and indirect, with investors' sentiment as a partial mediator. This means that both factual and fictional posts on social media elicit emotional responses that result in real investments. The findings also highlight a growing reliance on online discussions and opinions over traditional financial sources as investors rely on this source more than ever for their investments, leaving them more open to sentiment-driven investment decisions. The study suggests that enhancing financial literacy and establishing guidelines for credible online financial content could help minimize the risks of misinformation and irrational trading. Overall, the research adds to the field of behavioural finance by highlighting the impact of social media on investors' thoughts, feelings and actions in emerging markets such as Nepal. The results indicate that there is a need to encourage responsible social media usage and to enhance investor education to mitigate sentiment-related risks by regulators, policy makers, and financial institutions. Further studies might focus on specific social media or look at cross-country and cross-market differences in investor decision-making to improve knowledge of how investors behave online when making investment decisions.

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