International Journal of Multidisciplinary Innovation and Research Methodology (IJMIRM)
ISSN: 2960-2068, Volume 3, Issue 1, January-March, 2024, Available online at: https://ijmirm.com

Impact of Expert Recommendations on Stock Market Investment

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ABSTRACT

The stock market analysis landscape continues evolving as technology and data are becoming more accessible. Expert advice can help make financial investment decisions as it offers information ordinary investors may not easily obtain. The paper highlights the significance of expert recommendations in guiding investment decisions. We carefully study the connections between these factors to decipher the complex network of factors influencing investor decisions. The analysis of this research through multiple regressions reveals that investment intention is influenced by investing attitude, self-efficacy, and recommendations from registered analysts. Social norms and influencers, however, have comparatively small effects. While recommendations from finfluencers have little effect, those from registered analysts greatly increase investing intention.

Keywords: Stock Market, Investment Intention, Analysts, Influencers

INTRODUCTION

The stock market's dynamic and volatile nature is influenced by a variety of factors, including economic data, geopolitical events, and investor behavior (Wu et al., 2019). Despite this complexity, professional advice is extremely important for directing financial choices. These recommendations are based on in-depth research and analysis of industry trends and are provided by financial experts, analysts, and investment professionals (Jha et al., 2003). For investors looking to make wise investing selections, they offer priceless insights (Chakrabarti, 2005).

When navigating the intricacies of the stock market, professional opinions are especially helpful since they provide insights that individual investors might not have the time or knowledge to investigate on their own (Wu et al., 2019). Experts assist investors in identifying good possibilities and efficiently managing risks thanks to their thorough awareness of industry trends and company performance (Choudhary & Bajaj, 2011). Additionally, professional advice acts as a springboard for additional investigation and evaluation, helping investors to find opportunities that may have gone unnoticed (Choudhary & Bajaj, 2011).

These recommendations help investors decide when to purchase or sell companies, diversify portfolios, and identify potential risks and opportunities. They also support logical investment decisions and emotion management (Melo & Wanyama, 2008). Financial influencers and registered analysts both contribute significantly to the recommendations made. Financial influencers use digital platforms to exert influence, whereas registered analysts follow regulatory guidelines (Azevedo & Müller, 2020).

Before considering these experts' recommendations, investors base their decisions on their reputation and performance history (Kumar et al., 2021). Expert judgment affects stock prices and trading activity in addition to influencing individual investors' decisions and the mood and behavior of the market (Nyakurukwa & Seetharam, 2022). They support price discovery and the stock market's smooth operation (Melo & Wanyama, 2008).

For investors attempting to navigate the intricacies of the stock market, this professional advice is a priceless resource. They enable investors to make well-informed decisions that are in line with their financial objectives and risk tolerance by providing insights, analysis, and confirmation. Furthermore, by assisting with price discovery and providing guidance for investment decisions, expert opinions support the stock market's smooth operation.

REVIEW OF LITERATURE

The impact of analyst recommendations on stock market dynamics is examined in great detail, with studies covering multiple geographical regions and approaches. Wu et al. (2019) emphasize the stock market's dynamic and volatile nature, as influenced by a variety of factors such as economic data, geopolitical events, and investment behavior. Financial specialists, analysts, and investment professionals offer expert suggestions that are a priceless resource for

investors trying to make well-informed investment decisions (Jha et al., 2003). These recommendations are based on significant studies, industry trend analysis, and fundamental/ technical stock analysis (Jha et al., 2003).

According to a study by Chakrabarti (2005), financial analysts use their skills and information to foresee and prescribe trading behavior. Their suggestions, which are frequently divided into buy, hold, and sell categories, offer insightful guidance to investors trying to understand the intricacies of the stock market. This is in agreement with research conducted by Santosuosso (2015) on Italian-listed companies, which shows that more than 50% of recommendations are supported by absolute stock returns. Both studies highlight the statistical significance of analyst recommendations, especially in producing short-term price effects.

Similar to this, Moshirian et al. (2009) explore emerging markets and highlight how stock prices respond strongly to expert recommendations. They also identify a positive bias in these recommendations, implying the possibility of abnormal returns. However, Mikhail et al. (2007) share worries about conflicts of interest among sell-side analysts, which are consistent with the difficulties Wanyama and Melo (2008) have pointed out. To reduce potential biases, both studies stress how crucial it is for analyst suggestions to be impartial and transparent.

Another area of interest is investor reaction to analyst recommendations, as Mikhail et al. (2007) discovered both large & small traders respond to analyst reports. Hobbs, Kovacs, and Sharma (2012) also stress how profitable it is to have frequent updates to analyst recommendations. The skill of large investors in reading and exploiting this information is noteworthy, implying that frequent suggestion adjustments can yield important information for investors. Choudhary and Bajaj (2011) emphasize the value of analyst services to investors, pointing out that most individual stock investors rely heavily on expert advice from sources such as market analysts, financial advisors, and stock-broking companies when making investing decisions. Also, their research indicates that professional judgments impact stock prices and investor choices, which helps market dynamics.

As demonstrated by Hall &Tacon (2010) along with Chakrabarti (2005), analysts' ability to foresee the market has persisted, which highlights its significant influence on market views. It emphasizes how crucial precise and trustworthy forecasts are when making financial decisions. Biases in analyst recommendations have been identified in various research, with Hall &Tacon (2010) along with Santosuosso (2015) emphasizing biases for specific equities. Hobbs et al.' s (2012) study on the frequency of suggestion modifications adds complexity, demonstrating considerable advantages for analysts with more expertise than the median. This interdependence implies that analysts' experience affects how frequently suggestions are revised, which raises the total profitability of their recommendations.

Sashikala and Girish (2015) emphasize the importance of understanding retail investors' behavior. Their research highlights the importance of elements like financial analyst recommendations and broker advice, highlighting the necessity for financial services companies to customize their approaches according to the interests and demographics of retail investors.When it comes to offering recommendations to investors, financial influencers are just as important as financial analysts. Azevedo and Müller (2020) make a distinction between financial influencers, who use digital platforms to exert influence, and registered analysts, who follow legal requirements. Financial influencers use their internet presence to reach a large audience of investors with insights and suggestions, whereas registered analysts are held to a higher standard by regulators (Azevedo and Müller, 2020).

Before considering these experts' recommendations, investors base their decisions on their reputation and performance history (Kumar et al., 2021). Investors can make informed selections about which advice to follow by weighing variables including potential conflicts of interest and the accuracy of previous predictions. The impact of expert recommendations on market sentiment and behavior is highlighted by Nyakurukwa and Seetharam (2022), who also point out how these recommendations affect stock prices and trading activity.

Research Gap

The impact of recommendations made by registered analysts and social media influencers on investment intentions is not empirically investigated in the literature currently in publication. Although a lot of research has been done on theoretical models such as the theory of planned behavior, little is known about how suggestions affect investment choices. Prior research has prioritized theoretical frameworks over the particular function of recommendations from certified analysts and influencers. This gap necessitates empirical research that thoroughly investigates how investor intentions are shaped by recommendations from different sources, offering insights into modern, digital-age investment decision-making.

Statement of Problem

The stock market is an important forum for investors to distribute funds, where the investing decisions are frequently affected by recommendations by experts. Although a great deal of study has been done on the information-seeking behavior of investors, it is still unclear exactly how these recommendations affect investor intention in the stock market

investment. The objective of this research is to close this disparity by utilizing the Theory of Planned Behavior framework (Akhtar & Das, 2019)to evaluate the impact of financial influencers and registered analysts' recommendations on investment choices. It is essential to comprehend how investors view and apply this advice to assess their credibility and effectiveness in influencing investment outcomes and market trends.

Objective of the Study

- To study the impact of Recommendations by Registered Analysts on Investment Intention.
- To study the impact of Recommendations by Social Media Influencers (or Finfluencers) on Investment Intention.

Scope of the Study

The study focuses on studying the impact of expert recommendations, both from registered analysts and social media influencers providing financial advice, on investors' perceptions of stock market investment decisions. The scope extends to evaluating the credibility and reliability of the recommendations made by these analysts and influencers. The study is considered an extension of the Theory of Planned Behavior Factors (Akhtar & Das, 2019) that may moderate investment intention toward the stock market.

HYPOTHESIS FORMULATION

[Hypothesis 1] H_0: There is no significant relationship between Recommendations by Registered Analysts and Investment Intention.

[Hypothesis 2] H_0: There is no significant relationship between Recommendations by Social Media Influencers (or Finfluencers) and Investment Intention.

Research Design

The study examines the investment intentions of individual investors using an analytical and quantitative approach. Analytical research concentrates on cause-and-effect linkages, whereas quantitative research emphasizes statistical analysis. A deductive approach is taken to investigate the behavioral aspects impacting investment decisions. To create a research model based on the results of earlier studies, the study begins by analyzing theories related to behavioral finance.

Data Collection

Theresearch employs primary data collection through a closed-ended structured questionnaire to investigate the impact of expert recommendations on individual investors' stock market decisions. The 23-item questionnaire was based on the Theory of Planned Behavior, focusing on attitude, financial self-efficacy, and subjective norms influencing investment intention (Akhtar & Das, 2019). They also inquire about expert recommendations, including those from registered analysts and social media influencers (finfluencers). The questions were taken from previous research papers and theses to know they were reliable and were reframed according to the requirement. Based on a 5-point Likert scale, the responses indicate the degree of agreement, from "strongly disagree" to "strongly agree," guaranteeing thorough data collection.

Sampling Type & Size

This study uses convenience sampling. The sample size has been from a pool of investors all over India. A total of 210 responses were collected. 25 respondents did not currently invest in the stock market and the remaining 185 respondents were dealing in the stock market. In this paper, the findings and conclusion are based on only those respondents who trade in the stock market i.e. 185 respondents. No additional analysis was conducted on the non-investors.

Data Analysis

The collected data were processed and analyzed by SPSS Software. The study used correlation and multiple regression analysis, to check the hypotheses and to determine the connection between the independent factors and the dependent variable.The results were then interpreted to draw conclusions and make recommendations.The regression equation given below was used:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where the variables were identified as follows:

Dependable variable Y = Investment Intention in the Stock Market

Independent variable X_1= Investment Attitude

Independent variable X_2= Self-Efficacy

Independent variable X_3= Social Norms

Independent variable X_4= Recommendations by Finfluencers

Independent variable X_5= Recommendations by Registered Analysts

β_0 = Constant

While β_1, β_2, β_3, β_4, and β_5 are the coefficients of determination and ε is the error term.

FINDINGS

Correlation Analysis

Karl Pearson's coefficient of correlation (r) was used to assess the strength of relationships among the study variables. There was a substantial positive correlation between investment intention and investment attitude, evidenced by a correlation coefficient of 0.691 as well as between investment intention and self-efficacy with a coefficient of 0.653. There also existed positive although weaker correlations between investment intention and social norms (r = 0.278) along with recommendations by finfluencers (r = 0.25). The correlation between investment intention and recommendations by analysts was comparatively stronger at 0.441. These findings collectively demonstrate a positive correlation between investment intention and all examined independent variables.

Regression Analysis

The coefficient of determination (R^2) was employed to gauge the predictive efficacy of the statistical model for anticipating future outcomes. R^2 explains the extent to which changes in the independent variables can account for alterations in the dependent variable. In this study, the R^2 value of .565 reveals that the independent variables under scrutiny (Self-Efficacy, Finfluencers, Social Norms, Analysts, Investment Attitude) collectively explain approximately 56.5% of the variance in the dependent variable (Investment Intention), as indicated by the R^2. Thus, these independent variables contribute roughly 56.5% to the variance in Investment Intention, while other unexamined factors contribute 43.5% to the variance in Investment Intention.

The regression model yielded a sum of squares of 65.594 and degrees of freedom (df) of 5 for the regression component. The mean square, representing the average of the squared deviations from the mean, was calculated to be 13.119.The F-statistic, which evaluates the significance of the regression model, was found to be 46.522 with a corresponding p-value of less than .001. This indicates a highly significant relationship between the predictor variables and the dependent variable.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.752	.565	.553	.53103

Dependent Variable: Investment Intention

Predictors: (Constant), Self-Efficacy, Finfluencers, Social Norms, Analysts, Investment Attitude

Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.594	5	13.119	46.522	<.001[b]
	Residual	50.476	179	.282		
	Total	116.070	184			

Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.584	.229		2.552	.012
	Investment Attitude	.476	.080	.433	5.977	<.001
	Self-Efficacy	.322	.059	.355	5.485	<.001
	Social Norms	-.040	.047	-.052	-.856	.393
	Finfluencers	-.082	.056	-.094	-1.473	.143
	Analysts	.159	.068	.162	2.325	.021

Dependent Variable: Investment Intention in the Stock Market

The Regression Equationbecomes,

$Y = 0.584 + 0.476\ X_1 + 0.322\ X_2 - 0.40\ X_3 - 0.082\ X_4 + 0.159\ X_5$

Where Y is the dependent variable (Investment Intention in the Stock Market), the independent variables are X_1 as Investment Attitude, X_2 as Self-Efficacy X_3 as Social Norms, X_4 as Recommendations by Registered Analysts and X_5 as Recommendations by Finfluencers.

As per the equation, when all independent variables are held constant at zero, the predicted value for Investment Intention in the Stock Market (Y) is 0.584. The coefficients for each independent variable indicate the extent of their impact on Investment Intention. A unit increase in Investment Attitude (X_1) leads to a 0.476 increase in Investment Intention. Similarly, a unit increase in Self-Efficacy (X_2) results in an increase of 0.322 in Investment Intention. Conversely, a unit increase in Social Norms (X_3) leads to a decrease of 0.40 in Investment Intention. Recommendations by Registered Analysts (X_4) and Finfluencers (X_5) have smaller impacts, with a unit increase resulting in a decrease of 0.082 and an increase of 0.159 in Investment Intention, respectively.

INTERPRETATION

On **Investment Attitude**, people are more likely to invest when they have an optimistic outlook and confidence in investing instruments and market performance. The relationship is extremely significant (p-value< 0.001), demonstrating that investor attitude strongly impacts investment intentions. Stronger inclinations to invest are correlated with positive attitudes, whereas negative attitudes may discourage investment.

On **Self-Efficacy, people** are more likely to invest if they have a high level of confidence in their investing skills. Positive attitudes on investing opportunities are fostered by their perception of their own ability to analyze financial data and make well-informed decisions. This relationship is highly significant (p-value<0.001), emphasizing the importance of self-efficacy in affecting investing intentions. Stronger intents for making investments in the stock market are correlated with positive opinions of one's investing talents.

On **Social Norms**, people's intentions to make stock market investments might be influenced by their adherence to the expectations of the prevailing society regarding investment behavior. Those who identify with perceived financial responsibility or societal norms may have stronger investment inclinations. The study found no significant association between social norms and investing intention (p-value of 0.393). This suggests that social norms may not have a major impact on investment intentions in the scope of this study.

On the **Recommendations by Finfluencers**, there's a slight effect on investment intention regardless of their influence. This is influenced by elements like shallow marketing, mismatched preferences, and a sense of lack of trust. Regulatory authorities such as SEBI are addressing concerns regarding authenticity and conflicts of interest. The p-value of 0.143 (p-value>0.05) indicates that there is no meaningful link. Hence, the Null Hypothesis is accepted. However, the negative coefficient points to a slight deterrent effect, which motivates more research into the dynamics of influencer marketing in the financial sector.

On **Recommendations by Registered Analysts,** the study discovers a significant impact on people's desire to invest, indicating trustworthiness and directing choices when it comes to stock market participation. Those who rely on these recommendations are more likely to invest, perceiving it as an indicator of great prospects in navigating the financial

markets. With ap-value of 0.021 (p-value<0.05), the Null Hypothesis is rejected, indicating a significant influence of Analyst Recommendations on Investment Intention.

Limitations

- The study only looks at individual investors; more research may be done to examine how it affects different kinds of investors.
- Other variables may be included in future research, as this one only focuses on a few.
- Increasing the sample size can also help the study better understand the pattern of investing and how these factors influence investment decisions.

Scope for Further Research

The study examines five elements that influence investing intention: investment attitude, self-efficacy, social norms, recommendations by registered analysts, and recommendations by finfluencers. Further research can be done in the future to examine how financial advice is affected by regulatory control and how stock market movements are influenced by the recommendations from analysts and f influencers. Financial stability and well-being can be enhanced by monitoring shifts in investor behavior over time, which can offer insightful information about the workings of the market and the effectiveness of various sources of financial advice.

CONCLUSION

The study provides insightful information about the factors influencing stock market investment intentions. Self-efficacy and investment attitude were found to be significant predictors, indicating that people are more likely to indicate plans to invest if they have stronger self-efficacy and positive attitudes. In contrast, social norms had no discernible impact on investment intentions. Moreover, investment intention was positively impacted by recommendations made by Registered Analysts, underscoring the need for expert financial guidance. However, Finfluencers' recommendations had a minimal effect on investment intention, indicating that social media influencers have little power. These results highlight the value of expert financial advice and shed insight into the factors influencing investment intention in the stock market.

These insights can help investors, financial professionals, and policymakers understand complex markets and advance financial literacy. Recognizing the significance of these elements, stakeholders can create focused interventions to support investors and maintain the integrity of the market. This study adds to our understanding of how investors make decisions and has useful ramifications for encouraging wise investing decisions in the stock market environment.

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