

Influencer Hype and the “Pump-and-Dump” Effect on Retail Traders

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Abstract:

The democratization of financial markets in the post-pandemic era has led to an unprecedented surge in retail participation in the Indian stock market. Concurrently, the rise of financial influencers, or 'finfluencers', on platforms like YouTube, Instagram, and Telegram has fundamentally altered how young investors acquire financial literacy and investment ideas. While these platforms have improved market accessibility, they have also become breeding grounds for market manipulation, particularly the modern iteration of the 'pump-and-dump' scheme. This research paper investigates the impact of social media stock recommendations on the buying behavior of retail investors. Through primary data collected via a structured survey of young traders and finance students, this study explores the extent to which retail investors base their capital allocation on unverified 'tips' over fundamental analysis. The paper further evaluates the efficacy of the Securities and Exchange Board of India's (SEBI) recent regulatory crackdown on unregistered investment advisors. Findings suggest that despite growing regulatory oversight, psychological biases such as FOMO (Fear Of Missing Out) and the herd mentality continue to drive retail capital into micro-cap and penny stocks touted by influencers, often resulting in significant capital erosion. The research concludes with recommendations for both regulatory bodies and retail market participants to foster a more resilient and informed trading ecosystem. Keywords: Behavioral Finance, Finfluencers, Pump and Dump, SEBI Regulations, Retail Investors, Market Manipulation, Algorithmic Trading.

1. INTRODUCTION

The landscape of the Indian capital markets has undergone a seismic shift over the last five years. The proliferation of discount brokerages, seamless digital KYC processes, and the ubiquity of smartphones have systematically dismantled the traditional barriers to entry that once kept the average Indian citizen away from the stock market. With active demat accounts crossing the 150 million mark, retail investors now constitute a formidable force in determining market liquidity and directional momentum. However, this democratization has brought a parallel phenomenon: the exponential rise of financial content creators, colloquially termed 'finfluencers'.

Operating primarily on visual and rapid-consumption platforms like Instagram (via Reels), YouTube (via Shorts and long-form videos), and Telegram (via broadcast channels), finfluencers provide digestible, often highly sensationalized financial content. Their content ranges from basic financial literacy—

explaining terms like PE ratio and market capitalization—to direct, actionable trading advice and stock tips. It is the latter category that has raised significant alarms among regulatory bodies and institutional market participants. The core problem lies in the intersection of behavioral finance and social media algorithms. Social media platforms are designed to optimize for engagement, not factual accuracy or fiduciary responsibility. Consequently, content that promises astronomical returns in short timeframes naturally garners more views and shares than nuanced, balanced fundamental analysis. This dynamic creates a fertile environment for the 'pump-and-dump' scheme. Historically orchestrated in boiler rooms, the pump-and-dump has been modernized. This research paper aims to dissect this mechanism systematically.

2. LITERATURE REVIEW

The intersection of social media influence and stock market volatility has become a focal point of modern

financial literature. Early studies in behavioral finance, such as those by Kahneman and Tversky (1979), established that human beings are not strictly rational economic agents, but are subject to cognitive biases. In the context of the modern stock market, Shiller's concept of 'irrational exuberance' provides a foundational understanding of how collective excitement can decouple asset prices from their intrinsic values.

Recent academic discourse has pivoted to the role of digital communities. A seminal study on the 'Meme Stock' phenomenon (e.g., GameStop and AMC in the US) demonstrated how decentralized communities on Reddit (r/WallStreetBets) could coordinate massive capital flows, forcing short squeezes and generating unprecedented volatility. While the US meme stock rally was largely driven by a collective desire to combat institutional short sellers, the Indian scenario presents a different topology, characterized by a top-down influence model where charismatic finfluencers dictate trends to a receptive audience.

Furthermore, researchers like Barber and Odean (2000) have long documented the perils of overconfidence and over-trading among retail investors. When this overconfidence is artificially inflated by confirmation bias found in Telegram echo chambers, the resulting financial behavior is often reckless. Studies evaluating the efficacy of regulatory interventions (such as SEBI's crackdown on Telegram pump-and-dump operators like the 'Sadhna Broadcast' case) suggest that while regulations act as a deterrent, the whack-a-mole nature of social media makes enforcement incredibly challenging.

3. RESEARCH OBJECTIVES & HYPOTHESES

3.1 Primary Objectives

1. To analyze the extent to which retail investors depend on social media platforms (Instagram, YouTube, Telegram) for actionable stock recommendations.
2. To investigate the behavioral shift from traditional fundamental analysis to tip-based investing among the youth.
3. To decode the mechanics of the modern 'Pump-and-Dump' scheme orchestrated through social media hype.

4. To assess retail investor awareness regarding SEBI's Investment Adviser (IA) and Research Analyst (RA) regulations.

3.2 Hypotheses

H1 (Null Hypothesis): There is no significant relationship between social media stock recommendations and the buying behavior of retail investors.

H1a (Alternate Hypothesis): Social media stock recommendations significantly influence and dictate the buying behavior of retail investors.

H2 (Null Hypothesis): SEBI's recent regulations have not significantly reduced the reliance of retail investors on unregistered finfluencers. H2a (Alternate Hypothesis): SEBI's recent regulations have created awareness and reduced reliance on unregistered finfluencers.

4. RESEARCH METHODOLOGY

This research employs a descriptive and analytical methodology, leveraging both primary and secondary data sources to provide a comprehensive view of the subject matter.

4.1 Research Design: The study is exploratory and empirical in nature, designed to capture behavioral patterns and psychological biases of modern traders.

4.2 Target Population and Sampling: The target demographic comprises young retail traders and finance students based in Central India (including regional commercial hubs like Nagpur), representing a crucial segment of tier-2 city market participants who have entered the markets post-2020. A sample size of 250 respondents was targeted using Convenience and Snowball sampling techniques.

4.3 Data Collection Instruments: Primary data was collected via a structured Google Forms questionnaire. The survey consisted of multiple-choice questions, Likert-scale evaluations, and situational analysis queries designed to extract genuine trading habits rather than idealized financial behavior. Secondary data was aggregated from SEBI consultation papers, NSE/BSE circulars, and established financial journals.

4.4 Scope and Limitations: The study is limited to the

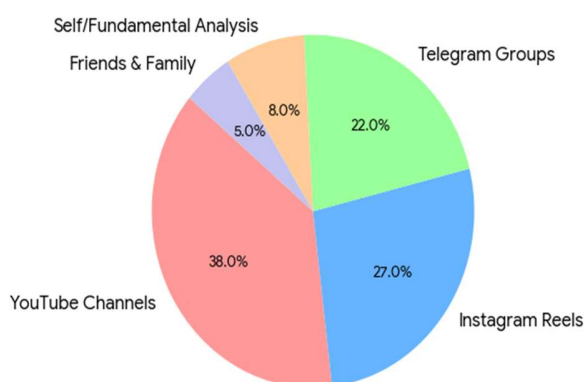
psychological and behavioral aspects of trading. It does not attempt to evaluate the mathematical profitability of algorithms, but rather the retail reaction to influencer hype. The sample may carry a recency bias based on current market conditions (bull vs. bear phases).

5. DATA ANALYSIS & INTERPRETATION

The primary data collected from the 250 respondents was systematically tabulated and analyzed. The following sections present the visual representation and interpretation of the findings.

5.1 The Dominance of Visual Media in Financial Advice

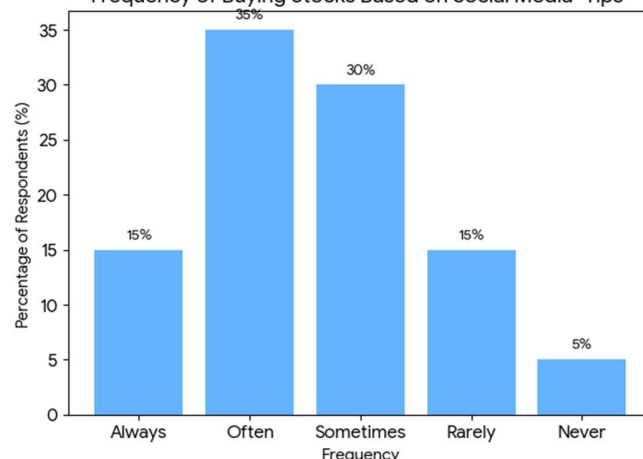
Primary Source of Investment Advice for Young Traders



Interpretation: As illustrated in the chart above, a staggering majority of young investors rely on short-form visual content. YouTube (38%) and Instagram Reels (27%) constitute the primary sources of investment ideas. Traditional self-research accounts for only 8%. This indicates a dangerous paradigm shift where complex financial data is being reduced to 60-second entertainment clips, stripping away necessary nuance and risk disclaimers. The high reliance on Telegram (22%) is particularly concerning, as it is the primary vector for anonymous pump-and-dump coordination.

5.2 Frequency of Tip-Based Investing

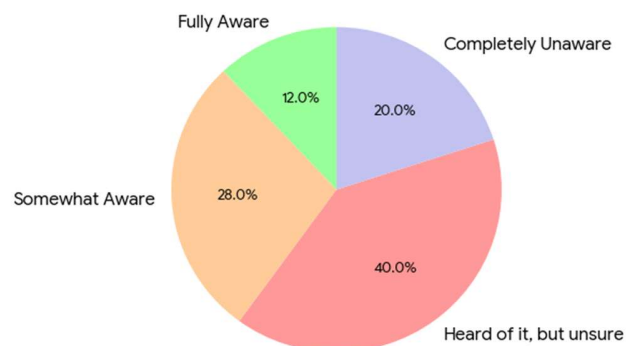
Frequency of Buying Stocks Based on Social Media "Tips"



Interpretation: When questioned about the frequency of executing trades purely based on social media tips without conducting independent fundamental analysis, 50% of the respondents admitted to doing so 'Often' or 'Always'. Only 5% claimed they 'Never' trade on tips. This data validates the alternate hypothesis (H1a), proving that influencer hype is a direct catalyst for capital allocation among retail traders. The allure of instant gratification overpowers the tedious process of reading annual reports.

5.3 Regulatory Awareness vs. Behavioral Action

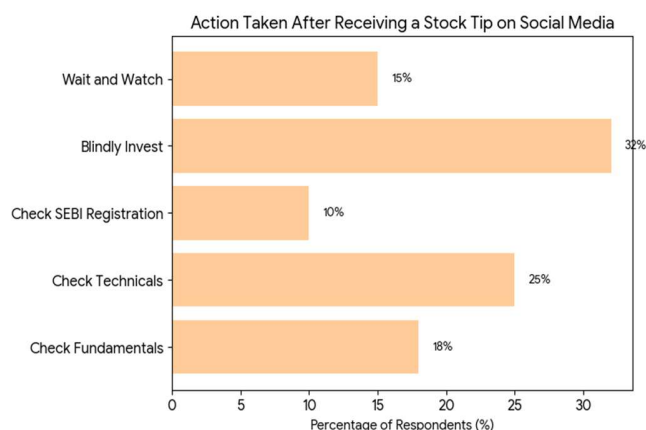
Awareness of SEBI Guidelines on Unregistered Finfluencers



Interpretation: The regulatory awareness chart reveals a stark reality. While SEBI has been aggressive in its media campaigns against unregistered advisors, only 12% of the demographic is 'Fully Aware' of the specific guidelines distinguishing a registered Research Analyst from an unregistered influencer. 60% of the respondents are either completely unaware or merely unsure. This lack of regulatory literacy makes them highly

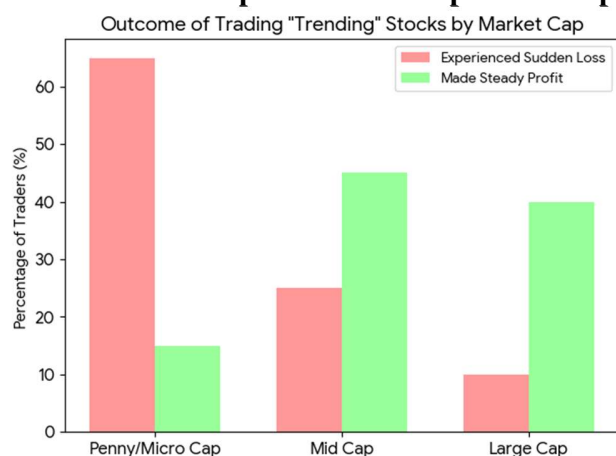
susceptible to manipulation. It highlights a critical gap in investor education that traditional depositories and exchanges need to bridge.

5.4 Verification Metrics Post-Recommendation



Interpretation: The most alarming metric from the survey is the post-recommendation action. 32% of respondents 'Blindly Invest' based on the perceived authority or charismatic appeal of the influencer. Only 10% actively check if the individual providing the tip is a SEBI Registered entity. This blind trust is the exact vulnerability exploited by pump-and-dump operators. The influencer is viewed as a benevolent wealth-creator rather than a potentially biased market participant.

5.5 The Direct Impact of the Pump and Dump



Interpretation: The final analytical metric correlates the market capitalization of the 'tipped' stock with the trading outcome. A massive 65% of traders who invested in Penny or Micro-cap stocks recommended on social media experienced sudden, heavy losses

(the 'Dump' phase). Conversely, those trading large-cap stocks saw steadier returns. Because micro-caps suffer from low liquidity, it is mathematically easier for an organized group of operators to artificially inflate the price using minor capital, heavily market it to retail through influencers, and exit, crashing the stock to its lower circuit.

6. ANATOMY OF A SOCIAL MEDIA PUMP-AND-DUMP

The traditional pump-and-dump has evolved. It no longer relies on cold calls; it relies on algorithmic virality. The modern blueprint typically follows these sequential phases:

Phase 1: Accumulation (The Quiet Period)

Market operators identify a dormant, low-liquidity penny stock, often a shell company with zero fundamentals. Over weeks, they quietly accumulate a massive volume of shares at rock-bottom prices. Because the volume is spread out, it does not trigger exchange surveillance alerts.

Phase 2: The Coordinated Pump (The Hype Phase)

The operators approach a network of influencers—offering them massive upfront cash payouts or advance knowledge to buy the stock themselves. Suddenly, multiple YouTube channels and Telegram groups start talking about this 'hidden multi-bagger' or 'the next Reliance'. They use hyperbolic thumbnails and aggressive language ('Buy before it hits upper circuit!').

Phase 3: The Retail Trap (The FOMO Phase)

Retail investors, seeing the stock surge by 10-20% in a few days and validated by their favorite influencers, experience severe FOMO. They inject massive capital, driving the price up exponentially. The volume spikes dramatically.

Phase 4: The Dump (The Exit)

Once the target price is reached, the operators and influencers aggressively dump their massive holdings onto the incoming retail buyers. The immense selling pressure instantly crashes the stock. Because it hits the lower circuit limit day after day, retail investors are trapped with no buyers for their shares, resulting in near-total capital destruction.

7. SEBI'S REGULATORY FRAMEWORK AND INTERVENTIONS

Recognizing the systemic risk posed by unregulated financial advice, the Securities and Exchange Board of India (SEBI) has initiated a multi-pronged crackdown.

1. **Prohibition on Unregistered Advice:** SEBI mandates that any entity providing stock-specific recommendations or building model portfolios for a fee (or indirect economic benefit) must be registered under the SEBI (Investment Advisers) Regulations, 2013, or SEBI (Research Analysts) Regulations, 2014.

2. **The Broker-Finfluencer Nexus:** SEBI has explicitly barred regulated entities (like stockbrokers and mutual funds) from partnering with, or paying referral commissions to, unregistered finfluencers. This cuts off the primary revenue stream (referral algorithms) for many hype-creators.

3. **High-Profile Crackdowns:** SEBI has taken strict ad-interim ex-parte orders against notorious pump-and-dump operators. Cases involving Telegram channels with hundreds of thousands of subscribers being penalized and their illicit profits (running into crores) being impounded have set strong legal precedents.

However, the regulatory framework faces challenges. Influencers often hide behind 'Educational Purposes Only' disclaimers, making legal prosecution complex. Furthermore, jurisdiction over international servers (like Telegram) remains a grey area for immediate enforcement.

8. FINDINGS AND CONCLUSION

The empirical evidence gathered in this research unequivocally confirms that social media finfluencers wield a disproportionate and often dangerous level of influence over retail trading behavior. The alternate hypothesis (H1a) is accepted: Social media recommendations dictate retail buying behavior, overshadowing traditional fundamental analysis.

The study highlights a critical behavioral flaw among young investors: the prioritization of convenience and perceived authority over due diligence. The modern pump-and-dump scheme thrives not just on

the greed of the operators, but on the intellectual complacency of the retail participant. While SEBI's regulations are a necessary step in the right direction, they are currently insufficient to completely eradicate the problem, largely due to the rapid evolution of digital communication and the low regulatory awareness among the masses. Ultimately, the stock market is a mechanism for transferring wealth from the impatient to the patient. So long as retail investors treat the equity markets as a casino facilitated by social media tips rather than an avenue for long-term wealth creation, they will remain susceptible to manipulation.

9. RECOMMENDATIONS

For Retail Investors:

1. **Verification:** Always verify the SEBI registration number of any individual or entity providing stock-specific advice. This data is publicly available on SEBI's portal.

2. **Fundamental Anchoring:** Use social media strictly as a starting point for ideas, not as the final decision-maker. Always cross-verify claims with the company's official exchange filings and annual reports.

3. **Avoid Micro-Caps on Tips:** Maintain a strict personal mandate to never buy highly illiquid, sub-100 crore market cap companies based on social media hype.

For Regulators (SEBI & Exchanges):

1. **Algorithmic Collaboration:** SEBI should collaborate with platforms like YouTube and Meta to flag content that promises guaranteed returns, forcing algorithm demotions on non-compliant financial content.

2. **Mandatory Disclaimers:** Introduce a mandatory, unskippable, standardized watermark or disclaimer for all finance-related content across digital platforms, similar to mutual fund advertisements.

3. **Enhanced Financial Literacy Programs:** Depositories (CDSL/NSDL) should invest heavily in gamified, modern financial literacy programs targeted specifically at college students before they open demat accounts.