

Financial Message Boards: Birds of the Same Feather Flock Together

October 28 2008

(PhysOrg.com) -- Contrary to the popular belief that online investment communities represent a melting-pot of ideas, where people come together to trade stock tips, share opinions and attempt to influence others, individuals using financial message boards seek out and interact with those who share the same opinions, new research at The University of Texas at Austin shows.

Michelle Chen, Bin Gu and Prabhudev Konana of the McCombs School of Business studied 72,019 individual interactions in 29 stock message boards on Yahoo! Finance. They found evidence consistent with a well-known psychological phenomenon called confirmation bias, where people look for information that agrees with their prior beliefs and participate in discussions with similar sentiments. As a result, they often unintentionally ignore or discount contradictory evidence.

"The staggering number of participants suggests that virtual communities could serve as a melting pot where investors exchange information and opinions," Konana said. "Unfortunately, the evidence shows that this is not happening. Fragmentation within a message board is much like what is observed in non-virtual social interactions where individuals of similar economic and social backgrounds form their own networks."

This behavior was shown to be further amplified when individuals face information overload, encounter limited information resources, experience high market uncertainty or hold a minority opinion in the community.

"As millions of users flock to virtual investment communities everyday, their influence on the stock market will become more prominent," Gu said. "Confirmation bias of this nature ultimately could lead to a distortion of the financial markets."

The [paper](#) can be found online.

Provided by University of Texas at Austin

Citation: Financial Message Boards: Birds of the Same Feather Flock Together (2008, October 28) retrieved 19 April 2024 from <https://phys.org/news/2008-10-financial-message-boards-birds-feather.html>

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