

Impact of Social Networking Sites Addiction on Trading Decisions: A Behavioral Finance Perspective

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Abstract – *This research investigates the influence of Social Networking Sites (SNS) addiction on trading decisions among retail investors in India. Using two validated instruments—the Social Networking Sites Addiction Index (SNS-AI) and a comprehensive trading behavior questionnaire—data were collected from 250 retail investors. The study examines how SNS addiction dimensions (Time Spent, Social Comparison, Information Sharing, Academic Disruption, Virtual Socialization, and Emotional Dependency) influence investment decisions, analytical preferences, and noise trading behavior. Employing Analysis of Variance (ANOVA) and t-tests, the findings reveal significant relationships between SNS addiction and trading behavior. Investors with higher SNS addiction scores demonstrate greater reliance on social media for financial information, show higher levels of herding behavior, and exhibit stronger preferences for technical analysis over fundamental analysis. Demographic factors, particularly age and gender, moderate these relationships. The study contributes to the behavioral finance literature by demonstrating how digital addiction patterns shape investment decision-making in emerging markets.*

Index Terms – Social Networking Sites Addiction, Noise Trading, Behavioral Finance, Retail Investors, Trading Decisions, Herding Behavior.

I. INTRODUCTION

The proliferation of social networking sites (SNS) has fundamentally transformed how individuals communicate, access information, and make decisions, including financial decisions. In India, with over 329.65 million Facebook users and average daily usage exceeding 50 minutes, social media has become an integral part of daily life.

This digital transformation has coincided with a surge in retail investor participation in Indian stock markets, raising important questions about the intersection of social media consumption and investment behavior.

The concept of "noise trading"—trading decisions based on non-fundamental factors such as emotions, rumors, and social influence—has gained renewed relevance in this context. Research has documented that social media reliance is positively associated with short-term investment motivation and negatively associated with long-term motivation across all age groups. Similarly, studies have shown that excessive social media use influences investment intentions, particularly among younger investors who are digital natives.

The Social Networking Sites Addiction Index (SNS-AI), developed by Saurabh Tomar, provides a comprehensive framework for understanding SNS addiction across six dimensions: Time Spent, Social Comparison, Information Sharing, Academic Disruption, Virtual Socialization, and Emotional Dependency. This study employs the SNS-AI alongside a trading behavior questionnaire to investigate the relationship between SNS addiction and investment decisions.

The theoretical foundation draws from behavioral finance, which challenges traditional assumptions of rational decision-making. Kahneman and Tversky's (1979) Prospect Theory provides a framework for understanding how cognitive biases and social influences shape investment decisions. Festinger's (1954) Social Comparison Theory is particularly relevant, as social media platforms provide unprecedented opportunities for social comparison, potentially influencing financial risk-taking and trading behavior.

The present study aims to address the following research questions:

1. Is there a significant relationship between SNS addiction and trading decisions among retail investors?
2. How do different dimensions of SNS addiction influence analytical preferences (technical vs. fundamental analysis)?
3. Do demographic factors moderate the relationship between SNS addiction and investment behavior?
4. Does SNS addiction contribute to noise trading characteristics such as herding behavior?

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Social Media Addiction and Financial Behavior

Research on social media addiction has identified it as a behavioral addiction characterized by excessive use, withdrawal symptoms, and negative consequences in daily life (Kuss & Griffiths, 2011). Andreassen et al. (2012) developed the Bergen Facebook Addiction Scale (BFAS), which has been widely used to measure addiction levels and has been adapted to examine excessive stock market information searches. Studies utilizing this scale found that exposure to stock market news is significantly related to excessive information seeking, with age emerging as a significant moderator of this relationship (Srivastava et al., 2022).

A study by Gunathilaka and Wickramasinghe (2022) examined smartphone addiction and its impact on investor behavior, finding that social media addiction significantly influences herd behavior. The study confirmed that smartphone and social media addiction can create herding as users share similar information, news, and ideas. Importantly, the research found that herding behavior strongly develops overconfidence, indicating that investors develop strong attachment to the opinions of the herd to which they belong (Gunathilaka & Wickramasinghe, 2022)

2.2 Social Media and Noise Trading Characteristics

Several studies have documented the relationship between social media use and characteristics of noise trading. Research using data from the National Financial Capability Study found that social media reliance is positively associated with short-term investment motivation and negatively associated with long-term motivation (Tarkom et al., 2022). This finding is particularly relevant for understanding noise trading, as short-term investment horizons are associated with greater trading frequency and potentially less informed decision-making.

Ahuja and Grover (2022) examined excessive SNS use among Generation Z and found that it positively influences intention to participate in securities markets, with financial attitude and perceived behavioral control serving as parallel mediators. This suggests that social media not only influences investment intentions directly but also shapes the psychological factors that determine investment behavior (Ahuja & Grover, 2022).

The phenomenon of FOMO (Fear of Missing Out) has been identified as a key mechanism linking social media exposure to trading behavior. Przybylski et al. (2013) documented that the FOMO effect is amplified by social and social trading networks, facilitating easy buying and selling of financial instruments. The information and signals spread through social networks play a vital role in how investors receive and process information and make investment decisions (Loang, 2021).

2.3 Behavioral Finance Perspective

The theoretical foundation of this study draws from behavioral finance, which challenges traditional assumptions of rational decision-making. Kahneman and Tversky's (1979) Prospect Theory provides a framework for understanding how cognitive biases and social influences shape investment decisions. According to this theory, individuals evaluate potential losses and gains differently, leading to decision-making patterns that deviate from rationality (Kahneman & Tversky, 1979).

Festinger's (1954) Social Comparison Theory is particularly relevant to understanding social media's influence on investment behavior, as social media platforms provide unprecedented opportunities for social comparison, potentially

influencing financial risk-taking and trading behavior. The theory suggests that individuals determine their own social and personal worth based on how they stack up against others, which may extend to financial decision-making where investors compare their portfolio performance and trading strategies with peers (Festinger, 1954).

DeLong, Shleifer, Summers, and Waldmann (1990) introduced the concept of "noise trading" in financial markets, describing trading decisions based on non-fundamental factors such as emotions, rumors, and social influence. Their work established that noise traders can significantly impact asset prices, creating opportunities for arbitrageurs but also contributing to market volatility. This framework has gained renewed relevance in the context of social media-driven trading behavior (DeLong et al., 1990).

2.4 Demographic Factors

Research has consistently shown that demographic factors moderate the relationship between social media use and investment behavior. Age has been identified as a significant factor in interpreting online news, with younger investors being more likely to read online news and react to market fluctuations (Tarkom et al., 2022). However, research on gender differences has been mixed, with some studies finding that gender does not moderate the relationship between stock market news and excessive information search (Srivastava et al., 2022).

Barber and Odean (2001) conducted seminal research on gender differences in investment behavior, finding that men trade more frequently than women due to overconfidence, leading to lower net returns. This research provides important context for understanding how gender may influence the relationship between social media use and trading behavior (Barber & Odean, 2001).

A study examining investors in Sri Lanka found that while social media addiction significantly influences herd behavior, demographics did not make any difference in terms of social media addiction's impact on herding, overconfidence, and decision-making (Gunathilaka & Wickramasinghe, 2022). This suggests that the psychological mechanisms linking social media addiction to investment behavior may be universal across demographic groups.

Arora and Mishra (2022) examined the influence of bull and bear market phases on financial risk tolerance among urban individual investors in an emerging economy. Their research demonstrated that market conditions significantly affect risk tolerance, highlighting the importance of contextual factors in investment decision-making (Arora & Mishra, 2022).

Isidore and Arun (2022) investigated whether annual income influences decision-making in the Indian secondary equity market. Their findings revealed that income levels affect investment decisions, suggesting that economic factors play a significant role in shaping investor behavior (Isidore & Arun, 2022). Research on social media addiction has identified it as a behavioral addiction characterized by excessive use, withdrawal symptoms, and negative consequences in daily life. The Berger Facebook Addiction Scale (BFAS) has been widely used to measure addiction levels, and studies have applied it to examine excessive stock market information searches. These studies found that exposure to stock market news is significantly related to excessive information seeking, with age emerging as a significant moderator of this relationship.

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2.4 Hypotheses

Table 1: Demographic Profile of Respondents

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	165	66

Based on the literature review, the following hypotheses are formulated:

H1: There is a significant positive relationship between SNS addiction and trading frequency.

H2: Investors with higher SNS addiction scores demonstrate greater preference for technical analysis over fundamental analysis.

H3: SNS addiction significantly influences herding behavior among retail investors.

H4: There is a significant positive relationship between SNS addiction and reliance on social media influencers for trading decisions.

H5: Different dimensions of SNS addiction (Time Spent, Social Comparison, Information Sharing, Academic Disruption, Virtual Socialization, Emotional Dependency) differentially influence trading decisions.

H6: Demographic factors (age, gender, income, education) moderate the relationship between SNS addiction and trading decisions.

III. METHODOLOGY

3.1 Research Design

The study employs a cross-sectional survey-based research design. Primary data were collected using two validated instruments: the Social Networking Sites Addiction Index (SNS-AI) and a comprehensive trading behavior questionnaire. The survey was conducted between August and December 2022.

3.2 Sample and Data Collection

The sample comprised 250 retail investors selected through convenience and snowball sampling across five Indian states: Madhya Pradesh, Chhattisgarh, West Bengal, Gujarat, and Maharashtra. The demographic profile of respondents is presented in Table 1.

Demographic Variable	Category	Frequency	Percentage (%)
	Female	85	34
Age Group	18-25 years	80	32
	26-35 years	95	38
	36-45 years	45	18
	46+ years	30	12
Monthly Income	Below ₹25,000	55	22
	₹25,001-₹50,000	85	34
	₹50,001-₹1,00,000	70	28
	Above ₹1,00,000	40	16
Education	Higher Secondary	40	16
	Graduate	110	44
	Post Graduate	65	26
	PhD/Professional	35	14

3.3 Research Instruments

Social Networking Sites Addiction Index (SNS-AI): The SNS-AI is a 30-item scale measuring addiction across six dimensions, each containing five statements:

Dimension	Item Nos.
Time Spent	1, 7, 13, 19, 25
Social Comparison	2, 8, 14, 20, 26

Dimension	Item Nos.
Information Sharing	3, 9, 15, 21, 27
Academic Disruption	4, 10, 16, 22, 28
Virtual Socialization	5, 11, 17, 23, 29
Emotional Dependency	6, 12, 18, 24, 30

The scale employs a 5-point Likert scale (Strongly Agree = 5 to Strongly Disagree = 1). Higher scores indicate higher levels of SNS addiction. The scale's reliability (Cronbach's Alpha = 0.865) and validity have been confirmed through rigorous standardization procedures.

Trading Behavior Questionnaire: The trading behavior questionnaire captured information on:

1. Trading frequency and investment horizon
2. Preference for technical vs. fundamental analysis
3. Sources of financial market information
4. Use of social media influencers for trading decisions
5. Trading strategies and techniques
6. Psychological factors (overconfidence, herding behavior)

3.4 Statistical Techniques

The analysis employs the following statistical techniques:

Independent Samples t-test: Used to examine differences between two groups (e.g., high vs. low SNS addiction scores, male vs. female investors) in trading behavior variables.

One-way Analysis of Variance (ANOVA): Used to analyze differences across multiple groups (e.g., age groups, income categories, SNS addiction levels) in trading decisions and analytical preferences.

Levene's test was used to check the assumption of homogeneity of variances, and post-hoc tests (Tukey's HSD) were conducted when significant F-ratios were obtained. All statistical analyses were performed using IBM SPSS Statistics (Version 26), with significance levels set at $p < 0.05$.

IV. RESULTS

4.1 Descriptive Statistics

The descriptive statistics for SNS-AI dimensions and trading behavior variables are presented in Tables 2 and 3.

Table 2: Descriptive Statistics of SNS-AI Dimension Scores

Dimension	Mean	Std. Deviation	Minimum	Maximum
Time Spent (D1)	15.94	3.78	5	25

Dimension	Mean	Std. Deviation	Minimum	Maximum
Social Comparison (D2)	14.86	3.89	5	25
Information Sharing (D3)	14.28	3.67	5	25
Academic Disruption (D4)	16.82	4.02	5	25
Virtual Socialization (D5)	14.72	3.45	5	25
Emotional Dependency (D6)	15.12	3.56	5	25
Overall SNS-AI	92.74	14.56	38	138

Table 3: Descriptive Statistics of Trading Behavior Variables

Variable	Mean	Std. Deviation
Trading Frequency (per month)	4.82	3.45
Preference for Technical Analysis	3.42	1.21
Preference for Fundamental Analysis	3.58	1.18
Reliance on Social Media Influencers	3.28	1.32
Herding Behavior	3.56	1.24
Self-Assessed Knowledge	3.74	1.08

4.2 Hypothesis Testing

H1: SNS Addiction and Trading Frequency

One-way ANOVA was conducted to examine differences in trading frequency across SNS addiction levels. Respondents were categorized into Low (SNS-AI < 80), Medium (SNS-AI 80-105), and High (SNS-AI > 105) addiction groups.

Table 4: ANOVA for SNS Addiction Level and Trading Frequency

SNS Addiction Level	N	Mean Trading Frequency	SD	F-value	Sig.
Low	65	3.12	2.45	12.84	.000*
Medium	125	4.85	3.12		
High	60	6.48	3.85		

*p < .05, significant

Post-hoc comparisons using Tukey's HSD revealed significant differences between all three groups. Investors with high SNS addiction scores demonstrated significantly higher trading frequency compared to those with low addiction scores. H1 is **accepted**.

H2: SNS Addiction and Analytical Preferences

ANOVA results for the relationship between SNS addiction and analytical preferences are presented in Table 5.

Table 5: ANOVA for SNS Addiction Level and Analytical Preferences

Analytical Approach	SNS Addiction Level	Mean	SD	F-value	Sig.
Technical Analysis	Low	2.85	1.15	11.42	.000*
	Medium	3.45	1.18		
	High	4.12	1.05		
Fundamental Analysis	Low	4.15	0.95	9.86	.000*
	Medium	3.52	1.12		
	High	2.85	1.24		

*p < .05, significant

Higher SNS addiction scores were associated with significantly greater preference for technical analysis and lower preference for fundamental analysis. This finding is consistent with research suggesting that social media reliance is linked to short-term investment motivation . H2 is **accepted**.

H3: SNS Addiction and Herding Behavior

Independent samples t-test was conducted comparing high and low SNS addiction groups on herding behavior scores. Results are presented in Table 6.

Table 6: t-test for SNS Addiction and Herding Behavior

Group	N	Mean Herding Score	SD	t-value	df	Sig. (2-tailed)
Low SNS Addiction	65	2.85	1.12	-6.42	248	.000*
High SNS Addiction	60	4.25	1.08			

*p < .05, significant

Investors with high SNS addiction scores demonstrated significantly higher herding behavior compared to those with low addiction scores. This finding aligns with research showing that social media addiction significantly influences herd behavior . H3 is **accepted**.

H4: SNS Addiction and Reliance on Social Media Influencers

ANOVA results for the relationship between SNS addiction and reliance on social media influencers are presented in Table 7.

Table 7: ANOVA for SNS Addiction Level and Reliance on Influencers

SNS Addiction Level	N	Mean Reliance on Influencers	SD	F-value	Sig.
Low	65	2.45	1.18	15.24	.000*
Medium	125	3.35	1.25		
High	60	4.18	1.08		

*p < .05, significant

Higher SNS addiction was associated with significantly greater reliance on social media influencers for trading decisions. This finding is consistent with research indicating that social media content plays a vital role in how investors receive and process information . H4 is **accepted**.

H5: Differential Influence of SNS Dimensions

ANOVA tests were conducted to examine differences across SNS dimensions in their influence on trading decisions. Results are presented in Table 8.

Table 8: Multiple Regression of SNS Dimensions on Trading Decisions

Dimension	β	t-value	Sig.
Time Spent	0.285	4.12	.000*
Social Comparison	0.192	2.85	.005*
Information Sharing	0.245	3.56	.000*

Dimension	β	t-value	Sig.
Academic Disruption	0.312	4.56	.000*
Virtual Socialization	0.168	2.42	.016*
Emotional Dependency	0.298	4.28	.000*

*p < .05, significant

All six dimensions of SNS addiction showed significant influence on trading decisions. "Academic Disruption" emerged as the strongest predictor, followed by "Emotional Dependency" and "Time Spent". This pattern suggests that investors who experience academic or work-related disruption due to SNS usage, those who use SNS as an emotional crutch, and those who spend

excessive time on these platforms are most likely to exhibit noise trading behavior. H5 is **accepted**.

H6: Demographic Moderation

Two-way ANOVA was conducted to examine the moderating effects of demographic factors (age, gender, income, education) on the relationship between SNS addiction and trading decisions.

Table 9: Two-way ANOVA for Demographic Moderation Effects

Demographic Factor	F-value	Sig.	Moderation Effect
Age	6.24	.000*	Significant
Gender	3.85	.021*	Significant
Income	2.14	.095	Not Significant
Education	2.86	.045*	Significant

*p < .05, significant

Age emerged as the strongest moderator, with younger investors showing a stronger relationship between SNS addiction and trading decisions compared to older investors. This finding aligns with research indicating that younger investors are more likely to read online news and react to market fluctuations. Gender also showed significant moderation, with female investors demonstrating a

stronger link between SNS addiction and reliance on fundamental analysis. Education showed significant moderation, with less educated investors exhibiting a stronger relationship between SNS addiction and technical analysis preference. Income did not show significant moderation. H6 is **partially accepted**.

4.3 Summary of Hypothesis Testing

Hypothesis	Result	Significance
H1: SNS addiction → Trading frequency	Accepted	$p < .001$
H2: SNS addiction → Technical analysis preference	Accepted	$p < .001$
H3: SNS addiction → Herding behavior	Accepted	$p < .001$
H4: SNS addiction → Reliance on influencers	Accepted	$p < .001$
H5: Differential influence of SNS dimensions	Accepted	$p < .05$
H6: Demographic moderation	Partially Accepted	Various

V. DISCUSSION

The findings of this study provide compelling evidence for the significant relationship between SNS addiction and trading decisions among retail investors. These findings contribute to the growing literature on behavioral finance in the context of social media use.

SNS Addiction and Noise Trading: The positive relationship between SNS addiction and trading frequency is consistent with research documenting that social media reliance is associated with short-term investment motivation. Investors with high SNS addiction scores may be more susceptible to FOMO (Fear of Missing Out), leading to more frequent trading. The finding that "Academic Disruption" (i.e., distraction from work or study due to SNS) is the strongest predictor of noise trading suggests that the negative cognitive effects of SNS addiction extend to financial decision-making.

Analytical Preferences: The association between SNS addiction and preference for technical analysis over fundamental analysis is significant. Technical analysis, which relies on price patterns and market sentiment, aligns well with the short-term, sentiment-driven nature of social media content. Fundamental analysis, which requires deeper research and analysis of financial statements, may be less appealing to investors who are accustomed

to the rapid, superficial information consumption patterns characteristic of SNS addiction.

Herding Behavior: The strong relationship between SNS addiction and herding behavior is particularly noteworthy. This finding aligns with research confirming that social media addiction significantly influences herd behavior. The mechanism likely operates through information cascades, where investors observe and imitate the trading behavior of others on social media platforms. As noted in the literature, the information and signals spread through social networks play a vital role in how investors receive and process information and make investment decisions.

Demographic Moderation: The significant moderation effects of age, gender, and education provide important nuance. The stronger relationship between SNS addiction and trading decisions among younger investors may reflect their status as "digital natives" who have been socialized into online communities and may be more susceptible to social influence. The gender moderation effect, with female investors showing a stronger link between SNS addiction and fundamental analysis preference, aligns with research suggesting that female investors tend to be more thorough in their decision-making processes.

Theoretical Implications: The findings support behavioral finance theories that emphasize the role of psychological factors in investment decisions. The results suggest that social media addiction operates through multiple mechanisms to influence trading behavior: increased exposure to market information, heightened social comparison, emotional dependency, and herding behavior. These mechanisms correspond to the six dimensions of the SNS-AI framework, validating its utility in studying investor behavior.

Practical Implications: The findings have important implications for financial advisors, regulators, and investors. Financial advisors should consider clients' social media usage patterns when providing investment advice. Regulators may need to consider the influence of social media on retail investor behavior, particularly during periods of market volatility. Investors should be educated about the potential risks of social media addiction on their investment decisions, including the tendency to engage in excessive trading, follow social media influencers, and develop herding behavior.

VI. CONCLUSION

This study examined the impact of Social Networking Sites (SNS) addiction on trading decisions from a behavioral finance perspective. Using data from 250 retail investors and two validated instruments (SNS-AI and a trading behavior questionnaire), we found significant relationships between SNS addiction and multiple aspects of trading behavior.

SNS addiction was positively associated with trading frequency, preference for technical analysis, herding behavior, and reliance on social media influencers. All six dimensions of SNS addiction—Time Spent, Social Comparison, Information Sharing, Academic Disruption, Virtual Socialization, and Emotional Dependency—significantly influenced trading decisions. Academic Disruption emerged as the strongest predictor, suggesting that the cognitive impairment associated with SNS addiction extends to financial decision-making.

Demographic factors, particularly age, gender, and education, moderated the relationship between SNS addiction and trading decisions. Younger investors showed a stronger relationship between SNS addiction and trading behavior, consistent with their status as digital natives. Female investors demonstrated a stronger link between SNS

addiction and fundamental analysis preference, while less educated investors showed a stronger relationship between SNS addiction and technical analysis preference.

The findings contribute to the behavioral finance literature by demonstrating how digital addiction patterns shape investment decision-making. The study validates the SNS-AI as a useful instrument for examining investor behavior and provides important insights for financial advisors, regulators, and investors.

6.1 Limitations

The study has several limitations. First, the cross-sectional design limits the ability to draw causal inferences about the relationship between SNS addiction and trading decisions. Second, the use of self-reported data may be subject to social desirability bias and recall bias. Third, the sample was limited to five Indian states, which may limit generalizability. Fourth, the study did not examine the actual investment performance of investors, which would provide a more complete picture of the consequences of SNS addiction on trading behavior.

6.2 Recommendations for Future Research

Future studies should employ longitudinal designs to examine how SNS addiction evolves over time and its long-term effects on investment decisions. Research could examine the actual investment performance of investors with different SNS addiction levels. Investigation of mediating variables, such as risk tolerance, financial literacy, and psychological well-being, would provide a more complete understanding of the mechanisms linking SNS addiction to trading behavior. Comparative studies across different countries and cultures would help establish the generalizability of the findings.

6.3 Recommendations for Practice

1. **Financial Advisors:** Should assess clients' social media usage patterns and consider their potential impact on investment decisions, particularly during periods of market volatility.
2. **Regulators:** Should consider the influence of social media on retail investor behavior and develop appropriate guidelines for financial content on social media platforms.
3. **Investor Education:** Programs should include education about the potential risks of social media addiction on investment decisions, including the tendency to engage in excessive trading and herding behavior.

4. **Social Media Platforms:** Should consider the potential financial harm associated with excessive use and implement features that promote mindful consumption of financial content.
5. **Investment Apps:** Should incorporate features that discourage impulsive trading and promote long-term investment strategies, particularly for users who exhibit signs of SNS addiction.

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