

PROPOSAL: SOCIAL NETWORKS MEET INVESTING

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In this project we plan to examine how financial networks form and whether social networks really harness the “wisdom of crowds”. On the one hand, social networks incorporate information from many individuals. On the other hand, as James Surowiecki puts it in his book, *The Wisdom of Crowds*: “The more influence we exert on each other, the more likely it is that we will believe the same things and make the same mistakes. That means it’s possible that we could become individually smarter but collectively dumber.”

We will use data provided to us by a multi asset brokerage company about a large social trading and investment network. In this network users are allowed to watch the trading activity of other users, copy them, or make their own trades. Users allow their trades to be displayed in a number of statistical ways, and other users can set their accounts to follow these trades automatically.

In a follow-up project we plan to examine which personality characteristics (measured using linguistic methods), attract investors. In particular, controlling for performance and the risk profile, do investors tend to copy individuals that sound more confident or masculine? These results will help academics (and practitioners) think about how individuals make their investment decisions.

This project involves working with large amounts of data, as we have all the trading activity, messages, and profiles for a very large sample of investors, as well as conventional financial databases (CRSP, COMPUSTAT, IBES). This will be a great opportunity for a student to learn how to manage “big data” projects and also improve their understanding of finance and econometrics.

Successful applicants will have good programming skills (and preferably a familiarity with STATA), be detail-oriented and resourceful.