Financial Advice via Social Media: The Rise of the "Finfluencer"

Social media has become one of the main ways in which people connect to one another. This has been especially true during the years of the COVID-19 pandemic when in-person contact was viewed by many as risky. With newsworthy stock market volatility dominating Main Street news headlines since early 2020, interest in investing has seen a dramatic increase. According to Bloomberg News, downloads of investment apps rose by 20% in 2021 from the year prior while actual time spent on these apps jumped by 90%. Most Millennials and Gen Z-ers are using social media sources for information about investing rather than relying on more traditional sources of investing information such as brokerage or investment advisory firms.

Influencers have taken notice and social media has become more saturated with financial content than ever before, leading to the rise of the financial influencer or "finfluencer." Viral videos proclaiming that this or that investment opportunity will "go to the moon this year!" have proliferated, as have social media postings promoting easy plans for paying off your house, car, or student loan debt using language such as "Five easy tricks to financial freedom."

This investor advisory explains what financial influencers are, how they are compensated, what you should keep in mind when you are exposed to financial influencers' content, red flags to watch out for, and resources available to you.

Issued: August 2022

What is a financial influencer ("finfluencer")?

A **finfluencer** is a person who, by virtue of their popular or cultural status, has the ability to influence the financial decision-making process of others through promotions or recommendations on social media. They may influence potential buyers by publishing posts or videos to their social media accounts, often stylized to be entertaining so that the post or video will be shared with other potential buyers. The financial influencer may be compensated by the business offering the product or service, the platform on which the message appears, or an undisclosed financier.

While there is nothing new about marketers paying celebrities to endorse their products, what IS different is that such breezy and hyper-emotional endorsements are being made in what is otherwise a very regulated industry with stringent rules about performance claims, and disclosure of potential conflicts of interest. Remember, investment promoters generally must provide potential investors with all information relevant to making an informed investment decision. Finfluencers are testing the limits of what is considered regulated investment advice and protected free speech.

Example: *Fiona Finfluencer enters into agreements with several companies to promote via her Instagram, Facebook, TikTok, and Twitter accounts their products and services for cryptocurrency trading accounts, real estate investing, and a start-up company that grows loofahs. The cryptocurrency trading platform pays Fiona $25 per person that she pushes to its platform. The real estate investment company compensates Fiona a flat monthly fee plus a bonus depending on how many people participate in their investments based on Fiona's recommendations. The loofah company compensates Fiona with a monthly flat fee, equity in the company, and free use of its products. Fiona discloses none of this to her social media followers.*

What should you consider when you come across financial advice on social media?

- **Finfluencers should disclose compensation they receive.** Government laws protect consumers by requiring that advertisements – including

Continued

To learn more, contact

The Arkansas Securities Department

1 Commerce Way, Ste 402, Little Rock, AR 72202

securities.arkansas.gov | 501-324-9260

product endorsements by social media influencers – must be truthful and disclose all relevant conflicts of interest. But regulators cannot possibly police every advertisement or endorsement. Consumers thus should not assume that a finfluencer is disclosing everything that they ought to be disclosing.

- **Entertainment for the masses, not individual advice.** While brokerage firms, banks, and investment advisers work with individual clients, finfluencers try to curate as large a following as possible to achieve a high volume of views. While some finfluencers may work in the financial services industry, many more do not. Finfluencers should disclose to their followers, but likely do not, that their social media content is not a replacement for individualized financial advice.
- **Limited direct recourse.** Finfluencers are not generally required to submit to government regulation. Indeed, a finfluencer's speech may be broadly protected by law. As discussed above, some laws and regulations apply to help protect consumers, but investors likely will have limited ability to recover from a finfluencer who turns out to be a fraudster or a know-nothing pretending to be a professional.

Watch Out for Red Flags

- **Dubious Advice.** While some financial content may include helpful advice like the basics of financial literacy, other content might include reckless advice (e.g., "Avoid Paying Your Debts" or "Avoid Make Your Next Mortgage Payment Using this HACK!") that could result in serious financial consequences, including a lowered credit score, losing significant amounts of hard-earned money, or civil or criminal actions being brought against you. Similar to investment opportunities, if it sounds too good or too crazy or too reckless to be true, it probably is.
- **Credentials Check.** If the finfluencer claims to hold a financial certification or designation of any kind, check to see if the certification or designation comes from an accredited organization and if the finfluencer is currently in good standing. You can also check with your local securities regulator to see if the person is registered to provide investment advice and recommendations.
- **Show Me the Data.** Some finfluencers build their following by promising "to the moon" stock picks or investment strategies on a regular basis. While some of these recommendations may increase in value, there may be tens or hundreds more that go bust or lose value, or strategies that fail. Take these recommendations with a shaker full of salt and ask for the data to back up the claims the finfluencer is making. If they only promote their "amazing" results, they are likely too good to be true. Remember, finfluencers are making content for their own financial gain – if their strategies and picks worked out so well, is there a reason they are spending hours making social media content?

Where to Go for Help

If you have concerns about a finfluencer, you should act. You can contact the social media platform through which the finfluencer is spreading their message to make the platform aware of your concerns. Reputable social media platforms have no interest in being conduits for fraud, and the platform may shut down the finfluencer if the platform finds violations of its policies or misconduct by the finfluencer. In addition, you can contact federal, state, provincial, or territorial regulators via NASAA. (To contact your securities regulator, please visit www.nasaa.org/contact-your-regulator).

The Bottom Line

While celebrities and other well-known personalities may be very good at what they do in their respective professions, that does not necessarily mean they should be looked to for investment advice. Investing is an individualized endeavor where success looks different for everyone. Endorsements about financial products should be treated with skepticism and subjected to the same scrutiny and consideration given to making any other major business decision. Ask yourself: "Why is this person endorsing this investment and how does it fit in my financial picture?" It may turn out that they are simply being paid to sell it, and that they don't care if it suits your needs or not.

To learn more, contact

The Arkansas Securities Department

1 Commerce Way, Ste 402, Little Rock, AR 72202

securities.arkansas.gov | 501-324-9260

ARKANSAS SECURITIES DEPARTMENT