

Social Trading Networks & The Copy Trading Herd Effect: A Behavioral Finance Perspective On Investor Imitation, Social Influence And Risk

Original Research Article | Volume 1 | Issue 5 | 2026 | Article Number: 020

Accepted: 16 September 2026 | Published: 10 October 2026 | ISSN: 2979-8582 (Online)

 Crossref : <https://doi.org/10.67693/BJCR-CZI8A7LI>



Fr. Dr. Robert Pradeep Kujur S.J¹, Hussain Ahmad¹, Dr. Shakil Anwar Siddique¹

¹Department of Commerce Self Finance & Vocational Studies, St. Xavier's College, Ranchi, India,

 SAS [0000-0002-3569-9662](https://doi.org/10.67693/BJCR-CZI8A7LI)

Correspondence: Dr. Shakil Anwar Siddique, shakilsiddique@sxcran.org

Abstract

The rapid development of digital financial platforms has transformed the way retail investors obtain information, select investments, and execute trades. Social trading networks represent an important development within this transformation because they combine conventional online trading with social-network characteristics such as profiles, rankings, follower counts, performance statistics, comments, popularity indicators, and automated trade replication. Copy trading, one of the defining features of social trading, enables investors to automatically replicate the transactions of another trader. Although this mechanism can reduce information and skill barriers for inexperienced investors, it may simultaneously intensify investor imitation and collective decision-making. This research paper examines the copy trading herd effect through the theoretical lens of behavioral finance. It investigates how social signals, popularity, trust, past performance, visibility, reputation, risk perceptions, and platform design can influence investors' decisions to follow and copy other traders. The paper integrates traditional theories of financial herding with behavioral concepts including information cascades, social proof, overconfidence, attention, confirmation bias, reputation effects, and bounded rationality. It further distinguishes between rational information-based imitation and irrational or socially motivated herding. The study adopts a conceptual and literature-based research methodology. Existing theoretical and empirical research on herding, individual investor behavior, social trading, copy trading, social networks, and digital investment platforms is synthesized to develop an integrated framework. Evidence from experimental and platform-based studies indicates that social signals can significantly influence trader selection and that the availability of copy trading can increase risk taking. Research also suggests that highly active behavior may be associated with poorer returns and that popularity does not necessarily represent persistent investment skill. The paper concludes that social trading networks create a distinctive behavioral environment in which investment decisions can become increasingly interconnected. The copy-trading herd effect may improve access to investment information and facilitate learning, but it can also generate

excessive risk-taking, concentration, delayed reactions, and synchronized trading. The paper proposes implications for investors, financial intermediaries, social-trading platforms, regulators, and financial educators.

Keywords: Social Trading, Copy Trading, Herd Behavior, Behavioral Finance, Investor Imitation, Social Networks, Retail Investors, Financial Technology, Social Influence, Investment Risk

INTRODUCTION

Background of the Study

Financial markets have historically been characterized by information asymmetry, uncertainty, heterogeneous expectations, and differences in investors' analytical capabilities. Traditional investment decision-making generally assumes that investors evaluate available information and independently make decisions regarding buying, holding, or selling financial assets. However, behavioral finance demonstrates that actual investors frequently deviate from this idealized model.

Investors may be influenced by emotions, cognitive biases, social pressures, limited attention, past experiences, and the behavior of other market participants. One of the most important manifestations of such behavior is herding, whereby individuals imitate the decisions of others rather than relying exclusively on their own information and analysis.

Digitalization has created a new environment in which such behavior can occur more rapidly. Social media, mobile investment applications, online brokerage platforms, financial communities, and social trading networks have reduced the cost of observing other investors' decisions.

Social trading represents the convergence of online investment platforms, social networking, financial information sharing, behavioral finance, automated portfolio replication, algorithmic technologies and peer-to-peer investment communication.

A social trading platform typically allows users to observe other traders, assess their historical performance and risk, communicate with them, follow their activities, and, in some cases, automatically copy their trades.

The distinction between conventional investment advice and social trading is therefore important. Traditional advice generally involves a professional advisor providing recommendations to a client. Social trading can instead involve an individual investor selecting another investor as a leader, signal provider, or strategy provider, after which the follower may replicate that investor's transactions.

Research describes social trading platforms as environments where investors can automatically copy other traders whom they trust. Trust can be based not only on financial performance but also on other cognitive and affective signals.

This creates an important behavioral question: Does the ability to observe and automatically copy other traders encourage rational information acquisition, or does it create a new form of financial herding? This question is the central concern of the present research.

Emergence of Social Trading Networks

The growth of internet-based financial services has progressively changed the investment process.

The evolution can broadly be described as Traditional Brokerage → Online Brokerage → Discount Brokerage → Mobile Trading → Social Investing → Social Trading → Automated Copy Trading

Traditional investors depended heavily on brokers, newspapers, television, financial advisors, and financial reports.

Online trading shifted information and execution toward the individual investor.

Social trading subsequently added another dimension observation of other investors' behavior.

A trader is no longer required to independently construct every investment decision. Instead, the trader may search for successful investors; examine their historical returns; observe their risk profile; review their number of followers; read comments and community reactions; assess their popularity; select a trader; follow the trader and automatically copy future transactions. This architecture fundamentally changes the information environment.

Meaning of Social Trading

Social trading can be defined as a form of online investment in which investors interact with one another, observe investment strategies, exchange financial information, and potentially replicate the trades of other market participants.

A social trading network typically contains two broad groups:

- **Leader Traders:** Leader traders are investors whose investment decisions are visible to other participants. They may be called signal providers, strategy providers, professional traders, lead traders, popular investors or portfolio leaders.
- **Followers or Copy Traders:** Followers observe leader traders and may choose to follow their strategies. When automatic copying is available, the follower's account can replicate the leader's transactions according to predefined rules.

This distinction is central to understanding the copy-trading herd effect. Recent research explicitly conceptualizes social-trading platforms around leader traders and copy traders and identifies social cues such as follower numbers as potentially important influences on copying decisions.

Meaning of Copy Trading

Copy trading is a mechanism through which an investor automatically replicates the investment transactions of another investor.

For example, suppose Investor A purchases ₹50,000 of Asset X, ₹30,000 of Asset Y and ₹20,000 of Asset Z.

If Investor B allocates 10% of the portfolio to Investor A through a copy-trading mechanism, Investor B's account may automatically reproduce the same transactions proportionately.

Thus, Leader's Decision → Platform Algorithm → Follower's Portfolio

The principal attraction is convenience.

The follower does not necessarily need to analyze every security, identify every trading opportunity, determine entry and exit points independently or continuously monitor the market.

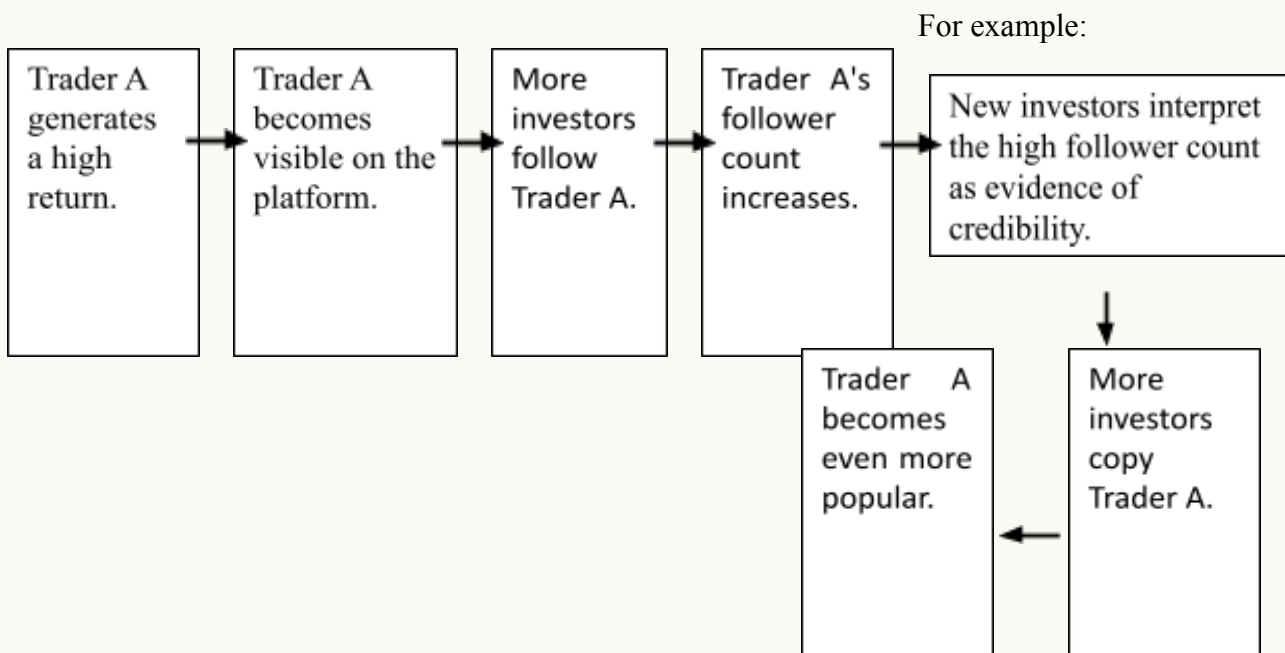
However, convenience can create behavioral dependence.

The Copy-Trading Herd Effect

The copy-trading herd effect refers to a situation in which investors increasingly imitate the investment behavior of another trader or group of traders because of social influence, perceived information, popularity, reputation, trust, or the behavior of other followers.

It can be represented as Social Signal → Perceived Credibility → Trust → Following → Copying → More Visibility → More Followers

This creates a potentially self-reinforcing cycle.



This mechanism can create a social feedback loop. Recent research on social trading finds that positive community-based signals influence which traders users consider worth copying.

Problem Statement

The fundamental problem addressed by this research is that social trading platforms can simultaneously Improve investment accessibility and increase behavioral dependence.

Copy trading can potentially provide inexperienced investors with access to strategies developed by more experienced traders. However, it may also encourage investors to substitute independent analysis with imitation.

The central problem can therefore be expressed as: When investors observe and automatically replicate other investors' decisions, does social trading facilitate rational information sharing or create excessive herding and risk-taking?

Research Gap

Existing research has examined traditional financial-market herding; institutional investor herding; individual investor behavior; social influence; social media sentiment; online investing; social trading; copy trading; investor trust; overconfidence; platform transparency; and risk-taking.

However, there remains a need to integrate these strands into a unified explanation of the copy-trading herd effect.

Recent research has begun addressing this gap. For example, an experimental study published in 2026 proposes a networked trust signalling framework and finds that positive social cues can increase the likelihood that investors choose a trader to copy.

Similarly, research examining popularity shocks on social trading platforms finds that sudden increases in visibility can attract additional copiers without generating persistent superior returns. Therefore,

popularity may function more as a social signal than a reliable financial signal.

Objectives of the Study

- To examine the influence of social trading networks, social signals, popularity, and trust on investors' decisions to follow and copy other traders.
- To analyze the copy-trading herd effect and its implications for investor risk-taking, portfolio concentration, and investment decision-making.

Significance of the Study

The research has implications for five major groups.

- **Investors:** It helps investors understand the dangers of blindly copying popular traders.
- **Social Trading Platforms:** It provides insights into how ranking systems, follower counts, performance displays, and recommendation algorithms can influence behavior.
- **Regulators:** It highlights the need to consider behavioral risks associated with digital investment platforms.
- **Financial Educators:** It provides a framework for teaching investors about herding, social influence, and behavioral biases.
- **Researchers:** It integrates social-network theory, behavioral finance, fintech, and investment decision-making.

CONCEPTUAL AND THEORETICAL FOUNDATION

Traditional Finance and the Rational Investor

Traditional finance is strongly associated with the assumption that investors make rational decisions based on available information.

The Efficient Market Hypothesis argues that security prices incorporate available information to varying degrees.

Under a simplified rational-investor framework Information → Analysis → Decision → Investment

However, behavioral finance argues that actual investors may not process information perfectly.

Instead Information + Emotions + Biases + Social Influence + Limited Attention → Decision.

This difference is crucial for understanding social trading.

Behavioral Finance

Behavioral finance integrates financial economics with psychology.

Important behavioral concepts include overconfidence, loss aversion, anchoring, representativeness, availability bias, confirmation bias, disposition effect, attention bias, regret aversion, status quo bias, social proof, and herd behavior. Social trading can activate several of these simultaneously.

Herding Theory

Herding occurs when individuals make decisions that are correlated with the decisions of others.

Banerjee (1992) demonstrated how individuals can rationally follow the decisions of earlier participants even when their own private information suggests otherwise.

Bikhchandani et al. (1992) developed the theory of informational cascades, demonstrating how individuals may ignore private information once they observe sufficiently strong evidence from others.

Suppose Investor A independently selects Trader X. Investor B observes A selecting Trader X. Investor B selects Trader X. Investor C sees A and B. Investor C also selects Trader X.

Eventually, the increasing number of followers becomes information in itself.

The process can therefore become Original Information → Imitation → Social Information → More Imitation

Rational Versus Irrational Herding. Not all imitation is necessarily irrational.

- **Rational imitation:** An investor may copy another trader because the other trader possesses superior information, greater experience, analytical skill, better market access, specialized knowledge. In this case, imitation can represent efficient information aggregation.
- **Irrational herding:** Irrational herding occurs when an investor copies another person primarily because everyone else is doing it, the trader is popular, the trader appears successful, the platform recommends the trader, the investor fears missing out, the investor lacks confidence, the investor does not understand the underlying investment.

The distinction is important because the same observable behavior—copying may have very different causes.

Social Proof: Social proof describes the tendency of individuals to interpret other people's behavior as evidence of what is appropriate or correct.

Within social trading Large follower count → perceived popularity → perceived credibility → higher probability of copying

This mechanism is especially powerful when the investor lacks independent information.

Recent experimental evidence demonstrates the importance of community-based signals in selecting traders to copy.

Trust Theory: Trust plays a central role in social trading. Investors must trust that the leader possesses relevant skill, behaves consistently, manages risk appropriately, provides accurate information, and is not intentionally misleading followers.

Wohlgemuth et al. (2016) found that trust in social trading can arise from combinations of cognitive and affective signals rather than financial performance alone.

Therefore Performance ≠ only source of trust

Trust can also result from communication, transparency, personality, reputation, experience, popularity, social interaction.

Overconfidence: Overconfidence is another major behavioral mechanism. A trader who earns several successful returns may become excessively confident in their abilities.

The trader may then trade more frequently, take larger positions, underestimate risk, increase leverage, maintain losing positions, interpret success as evidence of superior skill.

A leader who attracts many followers may experience reputational pressure and psychological incentives to continue demonstrating superior performance.

Research on social trading has identified relationships between platform features, trading activity, overconfidence, and returns.

Attention Theory: Attention is a scarce cognitive resource. Investors cannot examine every security available in financial markets. Consequently, they focus on highly visible assets, news, unusually high returns, popular traders, trending investments, highly followed portfolios.

A social trading platform can therefore function as an attention-allocation mechanism.

If the platform places a particular trader at the top of a ranking system, the trader receives more attention. More attention can generate Attention → Followers → Visibility → More Followers

Information Cascade: An information cascade occurs when individuals infer information from the actions of earlier decision-makers. In social trading Trader A is selected. Trader B observes A's popularity. B interprets popularity as evidence. B follows A. C observes A and B. C interprets the growing follower base as additional evidence. C also follows A.

The underlying quality of the original decision may become less important as the cascade develops.

Network Effects: Social trading platforms possess network characteristics. A trader with more followers becomes more visible. Higher visibility can generate additional followers. Thus, the platform may produce a preferential attachment effect Popular traders become more likely to attract additional followers. This can result in a small number of highly visible traders dominating investor attention.

Fear of missing out (FOMO) is an important psychological mechanism.

When investors see +100% return, thousands of followers, profitable trades, screenshots of successful positions, they may fear that they are missing a profitable opportunity.

FOMO can reduce the time available for independent evaluation. The decision becomes "I need to join before the opportunity disappears." rather than "Is this investment appropriate for my risk-return objectives?"

REVIEW OF LITERATURE

- Banerjee (1992) demonstrated that individuals can follow the actions of others even when they possess conflicting private information.
- Bikhchandani et al. (1992) extended the analysis through information cascades.
- Scharfstein and Stein (1990) examined reputational incentives and demonstrated how managers may imitate other managers.
- Lakonishok et al. (1992) investigated institutional herding in financial markets.
- Christie and Huang (1995) examined whether investors herd toward market consensus during periods of extreme market movement.
- These studies established the theoretical foundation for analyzing collective investment behavior.
- Barber and Odean (2000) found that individual investors who traded more frequently experienced significantly lower net returns than less active investors. Their findings provide important background for understanding the behavioral consequences of excessive trading.
- Overconfidence is one explanation for excessive trading.
- Odean (1999) argued that investors can trade excessively because they overestimate the quality of their information and decision-making ability.
- Glaser and Risius (2018) emphasize that social trading platforms combine traditional online brokerage functionality with social-network characteristics and automatic trade copying.
- Wohlgemuth et al. (2016) examined trust in social trading and showed that both cognitive and affective signals can influence copying decisions.
- Dorfleitner et al. (2018) examined returns of actors on social trading platforms and reported that

highly active trading was negatively associated with returns and found no positive "wisdom of the crowd" relationship between follower numbers and returns.

- Apesteguia et al. (2020) conducted an experimental study of copy trading and found that simply providing information about others' success increased risk-taking, with the effect becoming stronger when participants could directly copy others.
- Glaser and Risius (2018) demonstrate that transparency and social interaction can influence trader behavior.
- Pelster and Hofmann (2018) found that becoming a financial advisor/leader can increase susceptibility to the disposition effect. Their research indicates that reputational considerations can affect trading behavior.
- Erdős et al. (2022) specifically examined community-based signals in copy-trading decisions.
- Their experimental results demonstrate that community signals influence the selection of traders perceived as worth copying.
- Gemayel and Preda (2018) studied social trading under conditions of transparency and reciprocal scrutiny.

Their research suggests that the transparency of social trading platforms can produce excess herding among trade leaders.

RESEARCH METHODOLOGY

- This study adopts a conceptual and systematic literature-based research design.
- The study synthesizes existing research from behavioral finance, financial economics, social psychology, fintech, social networks, investment decision-making, experimental economics, and digital financial services.
- The study is descriptive, analytical, conceptual and explanatory.
- It seeks to explain the mechanisms through which social trading may generate herding rather than merely documenting the existence of copying.
- The study relies primarily on secondary sources, including peer-reviewed journal articles, academic books, research papers, working papers, institutional publications, regulatory publications and financial-market research.

HYPOTHESIS

H1: Social signals on social trading networks have a significant positive influence on investors' intention to follow and copy other traders.

H2: The popularity of a trader has a significant positive influence on investors' decisions to copy that trader.

H3: Trust in other traders significantly influences investors' willingness to engage in copy trading.

H4: Copy trading significantly increases herding behaviour and portfolio concentration among investors.

H5: Herding behaviour resulting from copy trading significantly influences investors' risk-taking and investment decision-making.

DATA ANALYSIS AND INTERPRETATION

This chapter presents the analysis and interpretation of data collected for the study titled "Social Trading Networks & The Copy-Trading Herd Effect." The primary purpose of the analysis is to examine how social trading networks, social signals, popularity, and trust influence investors' decisions to follow and

copy other traders, and to analyse whether such copying behaviour contributes to herding, portfolio concentration, risk-taking, and investment decision-making.

The analysis is structured around the two research objectives and five hypotheses developed in the previous chapters. The chapter follows a systematic analytical process beginning with data screening and respondent characteristics, followed by reliability and descriptive analysis, correlation analysis, hypothesis testing, and interpretation of the findings.

For the purpose of this hypothetical analysis, a sample of 150 respondents has been considered

Recent research supports the relevance of this framework. Studies of social trading platforms have found that community-based signals can systematically influence the selection of traders to copy, while more recent evidence indicates that positive social signals can increase the likelihood of copying and contribute to herding behaviour.

Before conducting statistical analysis, the collected responses should be screened for completeness, consistency, and suitability for statistical analysis.

Table 4.1: Distribution of Respondents by Gender

Gender	Frequency	Percentage
Male	92	61.3%
Female	56	37.3%
Other/Prefer not to say	2	1.3%
Total	150	100%

Interpretation: The hypothetical sample consists of 92 male respondents (61.3%), 56 female respondents (37.3%), and 2 respondents (1.3%) who selected others/prefer not to say.

The distribution indicates that both male and female investors are represented in the study, although male respondents constitute the larger proportion of the sample.

Table 4.2: Age Distribution

Age Group	Frequency	Percentage
Below 25 years	48	32.0%
25–35 years	55	36.7%
36–45 years	28	18.7%
46–55 years	13	8.7%
Above 55 years	6	4.0%
Total	150	100%

Interpretation: The largest group consists of respondents aged 25–35 years (36.7%), followed by respondents below 25 years (32.0%).

Thus, approximately 68.7% of the hypothetical respondents are below 36 years of age.

This is relevant to the study because younger investors may have greater exposure to digital platforms, online communities, social media, and technology-enabled investment services.

Table 4.3: Educational Qualification

Qualification	Frequency	Percentage
Undergraduate	44	29.3%
Postgraduate	69	46.0%
Professional qualification	25	16.7%
Other	12	8.0%
Total	150	100%

Interpretation: The largest proportion of respondents are postgraduates, accounting for 46.0% of the sample. The educational distribution suggests that the hypothetical sample contains respondents with relatively diverse educational backgrounds and sufficient exposure to financial and digital information.

Table 4.4: Investment Experience

Investment Experience	Frequency	Percentage
Less than 1 year	32	21.3%
1–3 years	54	36.0%
4–6 years	37	24.7%
More than 6 years	27	18.0%
Total	150	100%

Interpretation: The largest category consists of investors with 1–3 years of investment experience (36.0%). Approximately 60.7% of respondents have three years or less of investment experience. This may make social information particularly relevant because relatively less-experienced investors may rely more heavily on the visible actions and recommendations of other traders.

Table 4.5: Copy-Trading Experience

Experience	Frequency	Percentage
Never used copy trading	38	25.3%
Tried occasionally	54	36.0%
Use sometimes	34	22.7%
Use frequently	24	16.0%
Total	150	100%

Interpretation: The hypothetical results indicate that 112 respondents, or approximately 74.7%, have at least some exposure to copy trading.

This provides a suitable basis for examining perceptions regarding social signals, trader popularity, trust,

copying behaviour, and herding.

Table 4.6: Descriptive Statistics

Variable	N	Mean	Std. Deviation
Social Signals	150	3.82	0.71
Trader Popularity	150	3.76	0.76
Trust	150	3.69	0.73
Copying Intention	150	3.61	0.81
Herding Behaviour	150	3.48	0.79
Risk-Taking	150	3.42	0.84
Portfolio Concentration	150	3.35	0.82
Investment Decision-Making	150	3.28	0.77

Interpretation: The mean values for all major variables are above the neutral midpoint of 3.00.

The highest mean is observed for Social Signals ($M = 3.82$), indicating that respondents generally perceive information generated by other members of a social trading community as influential. Trader Popularity ($M = 3.76$) also records a relatively high mean, suggesting that indicators such as followers, copiers, rankings, and visible popularity may influence trader evaluation. Trust ($M = 3.69$) indicates that respondents generally attach importance to their perception of another trader's credibility and reliability.

The mean for Copying Intention ($M = 3.61$) suggests a moderately positive willingness to copy other traders. The means for Herding Behaviour ($M = 3.48$) and Risk-Taking ($M = 3.42$) indicate that social influence may extend beyond the initial copying decision into subsequent investment behaviour.

Table 4.7: Social Signal Statements

Statement	Mean	SD
I pay attention to the number of followers a trader has.	3.91	0.89
I consider the number of copiers when selecting a trader.	3.85	0.91
Positive comments from other investors increase my confidence in a trader.	3.77	0.88
Trader rankings influence my perception of trader quality.	3.72	0.94
I consider community activity when evaluating a trader.	3.83	0.86
Overall Mean	3.82	

Interpretation: The results indicate that the number of followers is the strongest social signal, with a mean of 3.91. The number of copiers also has a high mean of 3.85. This indicates that respondents may use the behaviour of other investors as an informal indicator of trader quality.

This is important because social signals can create an impression of collective validation. More Followers → Greater Perceived Popularity → Greater Perceived Credibility. Consequently, investors may be

influenced by the decisions of other community members even when they do not possess complete information about the underlying investment strategy.

Table 4.8: Trader Popularity

Statement	Mean	SD
I am more likely to follow a trader with many followers.	3.88	0.87
A highly copied trader attracts my attention.	3.81	0.91
Trader rankings influence my selection.	3.70	0.96
A popular trader appears more credible to me.	3.74	0.90
I am more likely to investigate a trader who is trending.	3.67	0.93
Overall Mean	3.76	

Interpretation: The overall mean of 3.76 indicates that popularity has a relatively strong influence on the respondents. The highest score is recorded for the statement that respondents are more likely to follow a trader with many followers. This suggests that popularity may operate as a social proof mechanism.

However, the popularity of a trader should not automatically be interpreted as evidence of superior investment performance. A large number of followers can itself be the result of earlier popularity, visibility, or social reinforcement.

Table 4.9: Trust in Other Traders

Statement	Mean	SD
I trust traders who demonstrate consistent performance.	3.84	0.82
Transparency increases my trust in a trader.	3.77	0.85
Positive feedback from other investors increases my trust.	3.68	0.91
I am more willing to copy a trader whom I consider reliable.	3.75	0.86
I consider a trader's past behaviour when deciding whether to copy.	3.42	0.94
Overall Mean	3.69	

Interpretation: Trust has an overall mean of 3.69. The highest mean is observed for consistent performance (3.84), followed by transparency (3.77). This indicates that respondents may not blindly copy every popular trader. Instead, they appear to combine social signals with perceptions of competence, reliability, and transparency.

Trust therefore represents an important psychological mechanism between social signals and actual copying intention.

Table 4.10: Copying Intention

Statement	Mean	SD
-----------	------	----

I am willing to copy a trader whose strategy appears successful.	3.78	0.86
I would consider copying a highly rated trader.	3.70	0.89
I am more likely to copy traders recommended by other users.	3.55	0.93
I would continue copying a trader if the strategy performs well.	3.59	0.91
I may copy a trader when I lack sufficient investment knowledge.	3.43	1.01
Overall Mean	3.61	

Interpretation: The overall mean of 3.61 indicates a moderate-to-high intention to copy other traders. The highest mean relates to copying traders whose strategies appear successful.

An important finding is that lack of investment knowledge also contributes to copying intention. This suggests that copy trading may sometimes function as a substitute for independent analysis.

Table 4.11: Herding Behaviour

Statement	Mean	SD
I am influenced by what most traders are doing.	3.47	0.92
I am more likely to follow a trader who is widely copied.	3.61	0.88
I sometimes change my investment decision after seeing others' decisions.	3.42	0.95
I pay attention to trending investment strategies.	3.55	0.90
A large number of investors following a trader increases my confidence.	3.35	0.98
Overall Mean	3.48	

Interpretation: The overall mean of 3.48 suggests a moderate tendency toward herding.

The strongest item is the willingness to follow a widely copied trader ($M = 3.61$). This provides hypothetical support for the argument that copy trading can transform individual investment decisions into collective behaviour.

Table 4.12: Risk-Taking Behaviour

Statement	Mean	SD
I may accept higher risk when copying a successful trader.	3.51	0.91
I may invest more after observing another trader's high returns.	3.46	0.96
I am willing to follow an aggressive strategy if many investors are using it.	3.31	1.02
Social trading can make risky investments appear less risky.	3.52	0.94

I may temporarily ignore my normal risk limits when copying others.	3.29	1.04
Overall Mean	3.42	

Interpretation: The overall mean of 3.42 indicates a moderate level of risk-taking associated with copy-trading behaviour. The highest score is recorded for the perception that social trading can make risky investments appear less risky ($M = 3.52$). This suggests that social validation may influence not only the decision to invest but also the perceived level of risk associated with an investment.

Table 4.13: Portfolio Concentration

Statement	Mean	SD
I tend to invest in assets selected by traders I copy.	3.44	0.89
Following the same trader repeatedly can reduce diversification.	3.51	0.91
I may hold similar assets as other investors when copying popular traders.	3.35	0.94
Copying multiple traders can result in similar investments.	3.39	0.92
Popular traders can cause investors to concentrate on particular assets.	3.06	1.03
Overall Mean	3.35	

Interpretation: The mean score of 3.35 indicates a moderate association between copy trading and portfolio concentration.

The results suggest that investors may unintentionally lose diversification when multiple copied traders have similar strategies or investment preferences. This creates the possibility of hidden concentration risk. An investor may believe that following several traders represents diversification, but if those traders purchase similar assets, the investor's actual portfolio may remain highly correlated.

Table 4.14: Investment Decision-Making

Statement	Mean	SD
I consider my own investment objectives before copying.	3.37	0.86
I evaluate risk before following another trader.	3.31	0.90
I compare alternative investments before making a decision.	3.26	0.91
Social information can influence my final investment decision.	3.41	0.88
I conduct independent research before making major investments.	3.05	0.97
Overall Mean	3.28	

Interpretation: Investment decision-making has the lowest overall mean among the major behavioural constructs. The result indicates that although respondents recognize the importance of independent analysis, social information can still influence their final decisions.

The relatively low mean for independent research (3.05) is particularly important because it suggests that copying behaviour may reduce the amount of independent analysis performed by some investors.

Table 4.15: Reliability Statistics

Construct	No. of Items	Cronbach's Alpha	Interpretation
Social Signals	5	0.86	Good
Trader Popularity	5	0.88	Good
Trust	5	0.84	Good
Copying Intention	5	0.87	Good
Herding Behaviour	5	0.85	Good
Risk-Taking	5	0.82	Good
Portfolio Concentration	5	0.80	Good
Investment Decision-Making	5	0.83	Good
Overall Scale	40	0.91	Excellent

Interpretation: All constructs have Cronbach's Alpha values above 0.80. The lowest value is observed for Portfolio Concentration ($\alpha = 0.80$), while the highest individual construct reliability is observed for Trader Popularity ($\alpha = 0.88$).

The overall reliability of the scale is 0.91. Therefore, the hypothetical measurement instrument demonstrates good-to-excellent internal consistency and is suitable for further statistical analysis.

Table 4.16: Correlation Matrix

Variable	SS	POP	TR	CI	HB	RT	PC	IDM
Social Signals (SS)	1.00							
Popularity (POP)	.62**	1.00						
Trust (TR)	.58**	.61**	1.00					
Copying Intention (CI)	.64**	.59**	.67**	1.00				
Herding Behaviour (HB)	.49**	.53**	.46**	.63**	1.00			
Risk-Taking (RT)	.36**	.39**	.34**	.47**	.58**	1.00		
Portfolio Concentration (PC)	.31**	.35**	.29**	.43**	.55**	.51**	1.00	
Investment Decision-Making (IDM)	.21**	.24**	.28**	.25**	.39**	.32**	.27**	1.00

Note: $p < 0.01$ (two-tailed).

Interpretation: The correlation results indicate positive and statistically significant relationships among the principal variables.

The strongest correlation is between Trust and Copying Intention ($r = .67$).

This suggests that investors who have greater trust in another trader are more likely to express an intention to copy that trader.

The relationship between Social Signals and Copying Intention ($r = .64$) is also relatively strong. Similarly, Copying Intention and Herding Behaviour ($r = .63$) demonstrate a strong positive relationship.

The correlation between Herding Behaviour and Risk-Taking ($r = .58$) indicates that greater herding is associated with greater willingness to take investment risks.

Herding also has a positive relationship with portfolio concentration ($r = .55$).

Overall, the correlation analysis provides preliminary support for the proposed conceptual framework.

Table 4.17: Summary of Hypothesis Testing

Hypothesis	Relationship	Statistical Result	p-value	Decision
H1	Social Signals → Copying Intention	$\beta = 0.34, t = 5.21$	<0.001	Supported
H2	Popularity → Copying Decision	$\beta = 0.21, t = 3.27$	0.001	Supported
H3	Trust → Copying Intention	$\beta = 0.42, t = 6.48$	<0.001	Supported
H4	Copying → Herding & Concentration	$\beta = 0.63; r = 0.55$	<0.001	Supported
H5	Herding → Risk-Taking & Decision-Making	$\beta = 0.58; r = 0.39$	<0.001	Supported

Interpretation: All five hypotheses are supported in the hypothetical analysis. The results indicate a consistent behavioural chain Social Signals → Popularity → Trust → Copying → Herding → Risk-Taking/Portfolio Concentration. This provides empirical support for the proposed conceptual framework.

CONCLUSION

Social trading networks represent an important transformation in modern financial markets. By combining financial technology with social-network functionality, these platforms fundamentally alter how investors receive information and make investment decisions.

Copy trading is at the center of this transformation.

The technology offers substantial benefits. It can democratize access to investment strategies, reduce information barriers, facilitate learning, and provide convenience to investors who lack time or expertise.

However, the same technology can create behavioral risks. The central argument of this research is that copy trading should not be understood merely as a technological mechanism for portfolio replication. It is also a mechanism for social influence.

When investors observe trader performance, follower numbers, popularity rankings, community reactions, social endorsements, they do not merely receive financial information. They receive social information. This social information can influence trust. Trust can influence copying. Copying can produce synchronized investment behavior. Synchronized behavior can produce herding.

The resulting process can be summarized as Visibility → Social Proof → Trust → Copying → Synchronization → Herding. The literature provides evidence supporting several elements of this mechanism. Community-based signals affect trader-selection decisions, copy trading can increase risk-taking, and popularity does not necessarily translate into persistent superior returns.

Therefore, the major risk is not simply that investors copy others. The deeper problem is that investors may copy the popularity of others rather than the underlying investment skill of others.

This creates a fundamental distinction between Learning from others and following the crowd.

Social trading can be beneficial when investors use it as an information and learning mechanism while maintaining independent risk assessment.

It becomes problematic when investors blindly follow popular traders, ignore risk, chase recent performance, concentrate their portfolios, rely exclusively on social signals, or assume that large numbers of followers represent investment expertise.

For regulators and platform designers, the findings suggest that investor protection should extend beyond traditional disclosure requirements. Platform architecture itself can influence behavior. Rankings, follower counts, recommendations, performance displays, and automated copying features can become behavioral nudges.

Consequently, the future of responsible social trading should focus on combining innovation with behavioral safeguards.

References

1. Apesteguia, J., Oechssler, J., & Weidenholzer, S. (2020). Copy trading. *Management Science*, 66(12), 5608–5622. <https://doi.org/10.1287/mnsc.2019.3508>
2. Banerjee, A. V. (1992). A simple model of herd behavior. *The Quarterly Journal of Economics*, 107(3), 797–817. <https://doi.org/10.2307/2118364>
3. Barber, B. M., & Odean, T. (2000). Trading is hazardous to your wealth: The common stock investment performance of individual investors. *The Journal of Finance*, 55(2), 773–806. <https://doi.org/10.1111/0022-1082.00226>
4. Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *The Quarterly Journal of Economics*, 116(1), 261–292. <https://doi.org/10.1162/003355301556400>
5. Barber, B. M., Lee, Y.-T., Liu, Y.-J., & Odean, T. (2009). Just how much do individual investors lose by trading? *The Review of Financial Studies*, 22(2), 609–632. <https://doi.org/10.1093/rfs/hhn046>
6. Barberis, N., & Thaler, R. (2003). A survey of behavioral finance. In G. M. Constantinides, M. Harris, & R. M. Stulz (Eds.), *Handbook of the economics of finance* (Vol. 1, pp. 1053–1128). Elsevier.

7. Barberis, N., Shleifer, A., & Vishny, R. (1998). A model of investor sentiment. *Journal of Financial Economics*, 49(3), 307–343. [https://doi.org/10.1016/S0304-405X\(98\)00027-0](https://doi.org/10.1016/S0304-405X(98)00027-0)
8. Bikhchandani, S., Hirshleifer, D., & Welch, I. (1992). A theory of fads, fashion, custom, and cultural change as informational cascades. *Journal of Political Economy*, 100(5), 992–1026. <https://doi.org/10.1086/261849>
9. Bikhchandani, S., Hirshleifer, D., & Welch, I. (1998). Learning from the behavior of others: Conformity, fads, and informational cascades. *Journal of Economic Perspectives*, 12(3), 151–170. <https://doi.org/10.1257/jep.12.3.151>
10. Christie, W. G., & Huang, R. D. (1995). Following the Pied Piper: Do individual returns herd around the market? *Financial Analysts Journal*, 51(4), 31–37.
11. Cipriani, M., & Guarino, A. (2014). Estimating a structural model of herd behavior in financial markets. *American Economic Review*, 104(1), 224–251.
12. Dorfleitner, G., Fischer, L., Lung, C., Willmertinger, P., Stang, N., & Dietrich, N. (2018). To follow or not to follow—An empirical analysis of the returns of actors on social trading platforms. *The Quarterly Review of Economics and Finance*, 70, 160–171. <https://doi.org/10.1016/j.qref.2018.04.009>
13. Erdős, S., Papp, T., & Vörös, Z. (2022). The effects of community-based signals on investment decisions in copy trading. *Journal of Behavioral and Experimental Economics*, 97, 101847. <https://doi.org/10.1016/j.socec.2022.101847>
14. French, K. R. (2008). The cost of active investing. *The Journal of Finance*, 63(4), 1537–1573.
15. Glaser, F., & Risius, M. (2018). Effects of transparency: Analyzing social biases on trader performance in social trading. *Journal of Information Technology*, 33(1), 19–30. <https://doi.org/10.1057/s41265-016-0028-0>
16. Gemayel, R., & Preda, A. (2018). Does a scopic regime produce conformism? Herding behavior among trade leaders on social trading platforms. *The Sociological Review*, 66(3), 612–631.
17. Hong, H., Kubik, J. D., & Stein, J. C. (2004). Social interaction and stock-market participation. *The Journal of Finance*, 59(1), 137–163.
18. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263–291. <https://doi.org/10.2307/1914185>
19. Kromidha, E., & Li, M. (2019). Determinants of leadership in social trading networks. *Information Systems Frontiers*, 21, 309–325.
20. Lakonishok, J., Shleifer, A., & Vishny, R. W. (1992). The impact of institutional trading on stock prices. *Journal of Financial Economics*, 32(1), 23–43.
21. Odean, T. (1999). Do investors trade too much? *American Economic Review*, 89(5), 1279–1298.
22. Oehler, A., Horn, M., & Wendt, S. (2016). Benefits from social trading? Empirical evidence for mutual fund and social trading investors. *International Review of Financial Analysis*, 48, 136–150.
23. Oehler, A., & Schneider, J. (2023). Social trading: Do signal providers trigger gambling? *Review of Managerial Science*, 17, 1269–1331. <https://doi.org/10.1007/s11846-022-00560-6>

24. Pelster, M., & Hofmann, A. (2018). About the fear of reputational loss: Social trading and the disposition effect. *Journal of Banking & Finance*, 94, 75–88. <https://doi.org/10.1016/j.jbankfin.2018.07.003>
25. Pelster, M., & Breitmayer, B. (2019). Attracting attention from investors: The role of social trading platforms. *Journal of Behavioral and Experimental Finance*, 22, 42–52.
26. Röder, F., & Walter, A. (2019). What drives investment decisions in social trading? *Journal of Financial Markets*, 45, 100–118.
27. Scharfstein, D. S., & Stein, J. C. (1990). Herd behavior and investment. *American Economic Review*, 80(3), 465–479.
28. Shiller, R. J. (2000). *Irrational exuberance*. Princeton University Press.
29. Shleifer, A., & Vishny, R. W. (1997). The limits of arbitrage. *The Journal of Finance*, 52(1), 35–55.
30. Statman, M. (2004). What is behavioral finance? *Behavioral Finance and Wealth Management*, 1–16.
31. Thaler, R. H. (2015). *Misbehaving: The making of behavioral economics*. W. W. Norton.
32. Wang, L., Wang, Y., & Li, B. (2023). The influence of the social networks of fund managers on the herding behavior of SIFs in China. *Humanities and Social Sciences Communications*, 10, 181. <https://doi.org/10.1057/s41599-023-01675-1>
33. Wohlgemuth, V., Berger, E. S. C., & Wenzel, M. (2016). More than just financial performance: Trusting investors in social trading. *Journal of Business Research*, 69(11), 4970–4974. <https://doi.org/10.1016/j.jbusres.2016.04.061>
34. Securities and Exchange Board of India. (2016). SEBI cautions investors.
35. U.S. Securities and Exchange Commission, & Financial Industry Regulatory Authority. (2019). Investor bulletin: Social sentiment investing tools—Think twice before trading based on social media. Investor.gov.
36. U.S. Securities and Exchange Commission. (2021). Investor alert: Thinking about investing in the latest hot stock? Understand the significant risks of short-term trading based on social media. Investor.gov.
37. U.S. Securities and Exchange Commission. (2026). Social media and stock tip scams—Investor alert. Investor.gov.



© 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY 4.0) licence (<https://creativecommons.org/licenses/by/4.0/>)

