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Personal experience as social capital in online investor forums

Lisa G. O'Connor [a,*], Lindsay L. Dillingham [b]

[a] School of Library & Information Science, College of Communication & Information, 335 Little Library, University of Kentucky, Lexington, KY 40506-0224, USA
[b] Department of Communication, 124 Grehan Building, University of Kentucky, Lexington, KY 40506-0224, USA

A B S T R A C T

Research demonstrates that information disseminated and circulated in online forums may have a significant impact on investors and on the securities market. Therefore, an understanding of that environment is critical. This research uses social capital theory as a framework for understanding how information exchange is facilitated in online investor forums. Specifically, it explores whether or not personal experience may generate social capital in the online environment. This work reports on the relationships between sharing personal experience and information sharing and use in three investor discussion forums. Four hundred forty threads containing 2405 posts were analyzed for this study. Thread starter posts and responses were quantified and coded for statements of personal experience. Citations to information sources were also measured. Results demonstrate that explicitly stating personal experience or lack of personal experience affects the quantity and quality of ensuing discussion and information exchange. Possible implications of this work on both the study of online investor forums and the study of social capital are discussed.

1. Introduction

The Internet has radically transformed the landscape of investing in the United States. In just 11 years the number of online brokerage accounts has increased nearly a hundred times; from only 1.5 million accounts in 1996 (Varian, 1998), the number had grown to over 111 million by 2007 (Donvan, 2007). Online investing has not just experienced exponential growth in number of accounts; the amount of money held in online brokerages is noteworthy as well. In the two-year period following the financial crisis in 2008, Americans moved more than $100 billion into online brokerage accounts, with much of that coming from full-service brokerages (Tarquinio, 2011).

The proliferation of online trading has a significant impact on investor behavior, particularly in the areas of information seeking and use. Williamson (2008, 2010) and Williamson and Kingsford Smith (2010) have identified the effects of investors' transition to online environments, including higher levels of trust in information sources than might be warranted by their quality, a preference for speed of delivery over the quality of information, and anxiety caused by information overload.

Other effects of Internet adoption are clear. According to Barber and Odean (2001) new communication channels on the Internet and the popularity of online trading are closely related: the explosion in web-based investment information is substituted for expert guidance, supporting, and even inflating, investor confidence. They write that, in lieu of professional advice, online investors turn to numerous sources including

> … fundamental and technical market information, chat room gossip, on-line journalists, and to sophisticated advice engines. Such cyberspace is nearly costless to reproduce. However its quality varies greatly. If investors are unable to distinguish high quality advice from low, they are unlikely to pay more for quality. Indeed with so much information available for free on the Internet, many investors will be unlikely to pay anything for information alone.
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> [p. 44]

Barber and Odean's (2002) research indicates that "when people are given more information on which to base a forecast or assessment, the accuracy of their forecasts tends to improve much more slowly than their confidence in the forecasts" (p. 460). In other words, acquiring more information can lead to overconfidence resulting from the illusion of knowledge. The trend to bypass professional investment advice is particularly troublesome because inexperienced non-professional investors earn lower returns as their use of un-mediated information rises relative to their use of mediated information (Elliot, Hodge, & Jackson, 2008). Lower returns can now prove more detrimental than ever given the onus placed on amateur investors to save for retirement (Biyan & Hershfield, 2012).

Further, according to Tarquinio (2011), although investors have a myriad of online sources from which to seek information, online communities are an increasingly popular venue:

> The new frontier in this area is social media: Most of the firms in our discount-broker survey are hosting conversations about investing ideas on Facebook and Twitter, while a growing number are setting

* Corresponding author.
E-mail address: loconnor@uky.edu (L.G. O'Connor).

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> up similar forums on their own websites. Scottrade even has a social-media forum in Chinese. Most of this vast library of investor geek-speak is available for free, but the brokers that offer it aren't exactly channelling Mother Teresa. The Synovate poll found that half of self-directed investors use these tools, and among those who do, nearly 85 percent say it has prompted them to take investment actions thus generating fees and commissions.
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> [Research section, para. 1]

Virtual communities have the potential to widely impact the decisions of individual investors. Indeed, research demonstrates that information disseminated in online forums may have a direct and significant impact on stock price movement (Antweiler & Frank, 2004; Regnier, 1999). Information or misinformation can be introduced and circulated in chat forums for the express purpose of manipulating stock prices, so it is critically important for information professionals and other interested parties to understand what types of exchanges take place there (Langevoort, 2002).

2. Problem statement

Because investors are increasingly forgoing professional advice and turning to virtual communities for education and support, online forums should, ideally, enhance the exchange of high quality information. Current research demonstrates that this is often not the case. Although it is well known that the means of generating social capital, including the sharing of personal experience, increase information sharing in face-to-face environments, little is known about what behaviors most effectively foster information exchange in virtual communities. It is essential to understand what factors positively impact information sharing behaviors in this unique context so that online communities may aid investors by facilitating, rather than impeding, the exchange of high quality information. Therefore, the purpose of this study is to extend the current understanding of the information exchange in the online investing environment by examining information sharing in three popular online investors' forums. This study uses social capital theory to explore the impact that the sharing of personal experience has on the quantity and quality of information sharing in the virtual communities.

Specifically, this study explores four research questions:

- Does a statement of personal experience in a thread starter post impact the likelihood of eliciting responses?
- Does a statement of personal experience in a thread starter post impact subsequent information sharing?
- Does the statement of personal experience in a thread starter post impact subsequent participation by the original poster?
- What is the purpose of personal experience statements in thread starting posts?

3. Literature review

3.1. Online investor information behavior

Mezick (2002) found that the Internet was having an impact on investors' information seeking behavior as early as 2001. Fifty-five percent of respondents in her study reported using the Internet for investment information daily or weekly, although only 6% used library sources with that frequency. Since Mezick's study, the reliance on online investment information seems to have increased with the Internet's popularity. For example, Williamson (2008, 2010) and Williamson and Kingsford Smith (2010) studied the information use of online investors and found that 82% of their participants used the Internet for investment-related information. Brokers' websites were the most often used sources of information, followed by company investor relations websites, advice via email from brokers or analysts, general financial information portals, and financial data or charting services. A number of authors have cited convenience, currency, and ease of use as the primary reasons for Internet adoption as it relates to investment information (Mezick; Williamson; Williamson & Kingsford Smith).

Furthermore, Barber and Odean (2001) discovered that the Internet may transform investors' information behaviors. Because the Internet reduces the costs of some information, but not others, it may impact source selection. They wrote that:

> The Internet especially facilitates comparisons of real time data, and thus has changed investors' focus by emphasizing the importance of speed and immediacy. While the serious individual investor of a decade ago may have checked stock positions once a day in the morning paper, casual investors now check theirs several times a day. Many more investors pay attention to short term – even intraday – returns than ever before.
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> [p. 48]

The abundance and immediacy of Internet-based information strengthens the illusion of being informed and in control (Barber & Odean, 2001; Williamson, 2008, 2010; Williamson & Kingsford Smith, 2010).

3.2. Online communities

Research on information sharing and use in virtual communities also provides a useful context for this study. Previous work has explored online information sharing in a variety of contexts. For example, several authors have examined the exchange of health information in online groups (Abrahamson & Rubin, 2012; Burnett & Buerkel, 2004; Donelle & Hoffman-Goetz, 2009; Johnson & Ambrose, 2006; Soojung & JungWon, 2012; Wikgren, 2001, 2003), and Savolainen (2001) and Lee, Cheung, Lim, and Choon Ling (2006) have studied consumer information exchanges in virtual forums. Although the contexts of these studies vary drastically, each of them has generally found richer information environments than expected. However, Strandberg (2008) and O'Connor and Rapchak (2012) examined online information use in political discussion forums and found that virtual environments are not always collaborative. Political discussion boards often included "negative comments, superficial topics, and unsubstantiated claims rather than true conversations" (Lee et al., 2006, p. 289). It is evident that information behavior in online communities varies with the make-up of the community's membership and the nature of the interests that unite the members.

A few studies have examined investors' online forums. For example, Antweiler and Frank (2004) examined 1.5 million investor forum postings to assess the impact of investors' online discussions about the market. The authors found not only that contentious discussions induce trading, but also that forum discussions predict market volatility, and forum content reflects public information. Furthermore, public information mirrors investor forums. Antweiller and Frank discovered that discussions about news preceded and predicted the treatment of that same topic in print newspapers by approximately 48 h. In addition to the finding that online discussion forums serve as a potent guide for public opinion, Antweiller and Frank concluded that internet investor boards contain useful information for amateur investors.

However, some studies describe the negative aspects of investor chat forums. Langevoort (2002) asserts that the "illusion of control provided by the Internet combined with an immediate audience for hype, fraud, or even ordinary opinion can make investors in chat groups more vulnerable" (p. 15). Meanwhile, the Financial Industry Regulatory Authority (FINRA), an organization that regulates the behavior of professional securities brokers, delineates acceptable behavior of professionals within social media. They prohibit professionals from posting content that is "unbalanced, overly positive or predicts an imminent price increase" (Financial Industry Regulatory Authority, 2011, p. 3).