CySEC INVESTOR GUIDE
The dangers of social media:
Unveiling the world of finfluencers

INTRODUCTION

TikTok, X (formerly Twitter) and Instagram have become the latest battleground to target potential investors, with an army of finance-focused influencers, known as finfluencers, earning money by touting advice on spending, saving and investing. In recent years, CySEC has seen these finfluencers post misleading information and poor advice, many of them amassing a huge following but with no professional financial advisory qualifications and failing to mention they're being paid to endorse a particular product. As an indication of the rising popularity of these influencers, a survey by CySEC in 2022 found that nearly one in three (31%) investors had made investment decisions based on recommendations from finfluencers on social media.

This evolving landscape has prompted CySEC to revise its guidelines on financial promotion on social media. The guidance emphasizes that providing false or misleading financial advice on social platforms can pose risks of market abuse and can constitute a serious offense.

While finfluencers may help to boost financial inclusion and there are examples of good financial advice, some of the recommendations online are highly questionable and even fraudulent. Novice investors and those just starting out on their savings and investing journey are particularly vulnerable to losing all their money, racking up huge debt or falling victim to a scam.

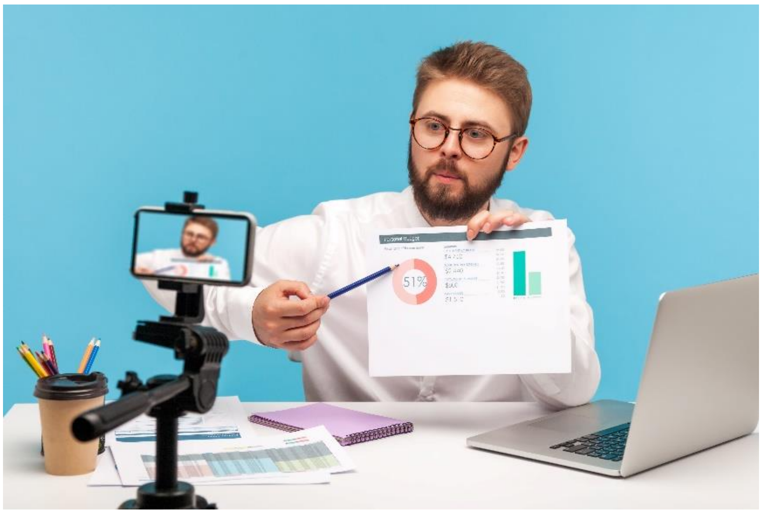
One of CySEC's top strategic priorities is to protect investors. Below is an investor guide to the finfluencer phenomenon, highlighting the risks and dangers of following misleading advice and sharing tips on how investors can protect themselves from scams.

WHAT IS A FINFLUENCER?

Financial influencers, so-called finfluencers, are content creators that use digital channels and social media platforms to drive financial behaviour and investment decisions, posting on all types of assets from cryptocurrencies to equities, as well as on personal finance. They've now become a primary source of investment information – particularly for the Gen Z cohort.

Their advice can range from building savings, paying off debt to guidance to students on launching their own businesses, but they can also post on the stocks or virtual currencies they claim to be investing in, and encourage followers to do the same. As their name suggests, their promotions and recommendations are intended to influence the financial decision-making of their followers.

Such is the rise of influencers in recent years, this crowded space can be a minefield. Advice given by finfluencers usually lacks sufficient disclosures, meaning investors cannot properly evaluate the product they're buying and often encourages investments in risky, unpredictable products. At worst, it may be a deliberate fraud. When participants in a 2024 survey conducted by Finance Magnates and FXStreet were asked if they had been victims of online financial fraud, over half (51.3%) said that they had personally lost funds to online scams.



EMERGENCE OF THIS TREND

Before the rise of social media, investors would approach stockbrokers and financial analysts who had specific qualifications for advice on where to invest for the highest return. The emergence of social media, however, means younger generations are now more likely to turn to finfluencers to access free investment advice.

Alongside social media use, investing in shares and cryptocurrencies has become increasingly attractive to young people. More than 80% of US generation Z (those born between the late 1990s and early 2000s) said they would invest in stocks and shares, according to Statista's Global Consumer Survey 2022, compared to less than half of participants from the baby boomer generation (those born between the mid-1940s and early 1960s).

CHARACTERISTICS OF FINFLUENCERS: THE TYPICAL PROFILE

Influencers across social media tend to fall into one of three categories: investment professionals who work for regulated financial companies, hired finfluencers and unregulated finfluencers. The latter two are generally individuals who use their popular status to impact investment decisions and share their experience of using financial products, but often they have little knowledge or qualifications and are usually motivated by a financial incentive to gain large followings. This might mean that some will spread misleading information or encourage high-risk behaviour without explaining the risks. And because they're not yet subject to direct regulation or oversight in most countries, it means they're not held to the same standard as licensed and supervised financial institutions.

Many influencers adopt the position with their followers that they were 'just like them' before starting to invest, telling compelling, emotional stories about how they worked 9-5 office jobs or were struggling to pay off student loans but now have more free time and money through investing in shares and cryptocurrencies. The idea is to convince their audience that anyone can make lots of money from investments.

According to a recent survey by the CFA Institute, the top three most mentioned influencer content are individual stocks and shares, index funds and ETFs.

Some influencers attract huge followings and use this to boost their credibility. One of the most successful finfluencers has over 50m followers. Celebrities have also got in on the act.

THE FINFLUENCER'S APPEAL

Financial advice on social media has the advantage of accessibility, and often fills a gap in financial education in young people. Young people don't want to attend lengthy financial conferences or read through a 500-page finance book when it feels like they can acquire the same information for free and readily available on their smartphone. By creating content that is creative, engaging, easily digestible and relatable to young people, finfluencers offer an entry point the world of finance and investing. Many use terminology and references to pop culture that simplify complex financial terms and concepts, such as interest rates and how stock valuation works.

Their platforms often give followers a sense of belonging, that they're joining a community of like-minded people to discuss finance. Not surprising perhaps is that many young people cite FOMO, the fear of missing out, as a factor in their motivation to start their investment journey.

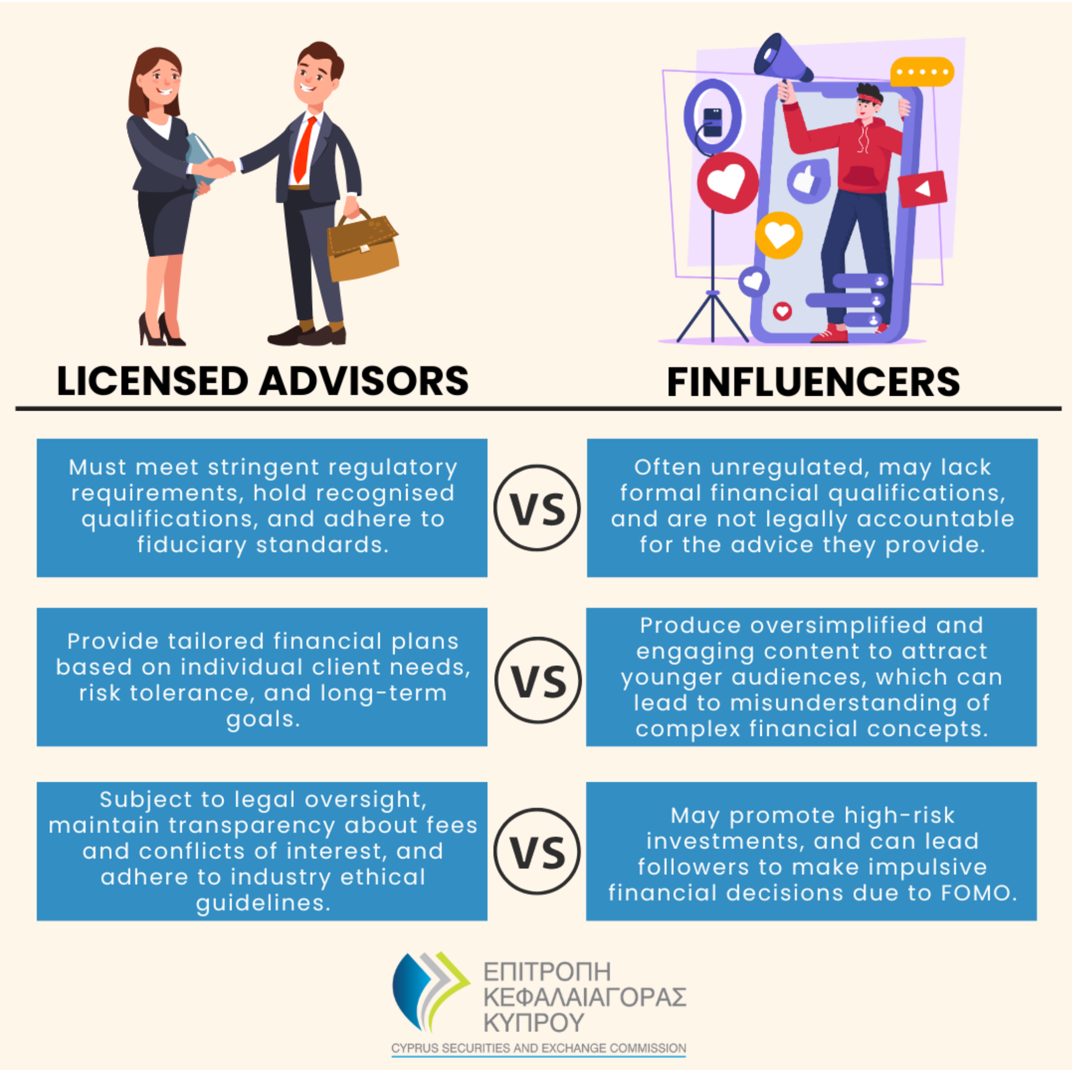
RISKS AND DANGERS

Although investors can find easy, accessible and simplified financial information online, unfortunately, some finfluencers prioritize viral posts or "likes" and their own financial rewards over providing accurate information. A recent US law review highlighted one video that claimed viewers could make $1m each year by investing in real estate without money or credit.

The reality is that anyone can claim to be a financial expert on social media, even ones with no qualifications or very murky ones to back their claim. This lack of expertise – as well as an absence of fiduciary responsibility - means they can offer the wrong advice, and when things go wrong, they're not subject to any of the requirements that apply to licenced financial advisers. After the collapse of several cryptocurrency projects, influencers apologised, but there's no regulation that compels them to give back the money they made from promoting a poor product.

Unlike professional financial advisors, the advice offered by finfluencers is not tailored to individual financial situations. Their advice will not take into account an individual's risk tolerance, portfolio or investment time horizon.

Another issue is a lack of transparency and a conflict of personal interests. A finfluencer might, for instance, promote a product simply because he has received payments from a financial service firm without declaring it. Some even seek to deliberately lead followers down the wrong path.



WHAT IS BEING DONE ABOUT IT?

The role of social media in the rise of finfluencers has caught the attention of regulators and industry professionals globally.

The European Securities and Markets Authority (ESMA) recently warned influencers they must separate fact from opinion and disclose an interest in what they're selling or face multi-million-euro fines. The EU's Market Abuse Regulation 596/2014, MiFID II and Commission Delegated Regulation (EU) 2016/958 applies to finfluencers because investment recommendations and other investment-related information must be neutral and disclose any conflicts of interest. Social media platforms also have terms of service that may include guidelines and restrictions on promoting certain financial products or conducting non-compliant advertising. Most finfluencers do not meet these standards.

CySEC is among regulators that have cracked down on misleading and aggressive marketing practices on social media, using sophisticated monitoring tools that track social media posts in over 180 languages in real time. In Cyprus, increased supervision means financial services firms using finfluencers are also under pressure to comply with the rules.

Recent CySEC guidance warned firms on the new requirements being established by the Market Abuse Regulation, which stipulates that any video or other type of public communication, including social media, in which a person gives advice or ideas, directly or indirectly, about buying or selling a financial instrument or on composing a portfolio of financial instruments may constitute an investment recommendation, and therefore risks market manipulation. The UK, France, Spain and Belgium are also drafting stricter rules on the mass marketing of virtual currencies.

The Financial Conduct Authority in the UK has already brought charges against a group of reality TV stars turned social media influencers who it claims were promoting an unauthorised investment scheme on Instagram. The trial has been set for 2027.

Even so, regulators in different countries will need to work together more closely so that existing laws and framework are used more effectively, and to maintain data on complaints against influencers to take enforcement action and better protect the investing public. Regulators like

CySEC have already begun reaching out to finfluencers to help them to better understand how their activities may be subject to regulation and has increased its financial literacy initiatives to empower investors to do further research before investing.

SAFEGUARDING YOUR INVESTMENTS

Critical thinking is essential when faced with financial advice online, even if the person providing the advice has millions of followers and/or is a recognised celebrity. It is important to be cautious of the advice and information that bloggers and financial influencers provide on their platforms.

To mitigate the risks associated with finfluencers' advice and safeguard your investments against fraud, the following steps should be taken into consideration:

1. Only invest in assets where you fully understand the mechanism behind them and in which you trust. Make sure you research every investment thoroughly and seek information from different sources.
2. If something is too good to be true, it probably is. Despite an overall positive trend in the stock market historically, it takes time to build up returns. Be aware of those promising investments with quick and high returns.
3. Ask yourself if the person giving financial advice has different interests than you. Does their advice sound more like a commercial or promotion for a specific share or cryptocurrency rather than advice tailored to your circumstances? Take note of red flags in any communications, particularly when pressure tactics are used to force you into a certain action.
4. Always validate financial information provided to you online against additional reliable sources. Just because someone has many followers, it does not necessarily mean they are trustworthy. Videos posted online promoting financial products are not necessarily based on facts, regardless of how many views they have. Always check if a company that a finfluencer is promoting is supervised by a national regulator or has been reported for fraud.
5. New investors can speak to a licensed investment advisor to guide them through a more balanced market outlook of the risks and returns.
6. Never provide a finfluencer or any friendly stranger online with your bank or income details.

FURTHER INFORMATION AND ADVICE

Visit the CySEC Financial Education Portal for informative material and tips for your protection.

ESMA's warning for people positing investment recommendation on social media can be found here.

Read more on the EU Market Abuse Regulation.

The Louisiana Law Review: How to Make a $1m in 30 seconds or less, examining the need for regulations on finfluencers can be found here