Decoding Wallstreetbets: Daily Disagreements Among Retail Investors Echo in Trading Volumes

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Abstract : Disagreement among investors is a fundamental aspect of financial markets, significantly influencing market dynamics. Previous research highlights the challenges of effectively measuring investor disagreement, often relying on traditional proxies like analyst forecast dispersion, which are limited by biases and infrequent updates. Recent movements in social media indicate that retail investors actively seek financial advice online and can influence the stock market. The evolution of the investing landscape, particularly the rise of social media as a hub for financial advice, provides a novel avenue for real-time measurement of investor sentiment and disagreement. Platforms like Reddit offer rich, community-driven discussions that reflect genuine investor opinions. This research explores how social media empowers retail investors and the potential of leveraging textual analysis of social media content to capture daily fluctuations in investor disagreement. This study investigates the relationship between daily investor disagreement and trading volume, focusing on the role of social media platforms in shaping market dynamics, specifically using data from WallStreetBets (WSB) on Reddit. This paper uses data from 2020 to 2023 from WSB and analyses 4,896 firms with enough social media activity in WSB to define stock-day level disagreement measures. Consistent with traditional theories that disagreement induces trading volume, the results show significant evidence supporting this claim through different disagreement measures derived from WSB discussions.