

## **IN THE SPOTLIGHT: HOW CELEBRITY INVESTORS SWAY FINANCIAL MARKETS**

### **Abstract**

Since future business conditions are soaked with uncertainty, asset prices may be partly guided by the shifting judgments of highly-respected “great investors.” We study a social network model of financial markets. Each trader can observe the changing asset holdings of anyone else but the cost implies that individual market participants differ in how much they engage in personal investment research and how intensely they observe other traders. Even if the precise beliefs motivating celebrity investors must remain obscure, a significant group of copycat traders can be expected to mimic opinion leaders. The network approach allows us to explore the effects of indirect and limited attention on prices, trading volumes and portfolio holdings. In general, market dynamics are sluggish, yet lead to over- as well as underreactions in prices. Topology, i.e., the specific way in which agents are linked, and the composition of the investing public are critically important. Prices are weighted averages of investor opinions. We ask which factors strengthen or weaken the price-setting power of investors “with cachet,” and under what circumstances they become the source of much superfluous trading volume.