



Investor mood and demand for stocks: Evidence from popular TV series finales



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ABSTRACT

In this paper I employ a novel discrete mood proxy to investigate the response of the U.S. stock market to exogenous daily variations in investor mood. Drawing upon the psychology and communication literature, which documents that the end of popular TV series causes negative emotional reactions in large numbers of television viewers, I employ major TV series finales (between 1967 and 2012) as mood-altering events. I find that an increase in the fraction of Americans watching a TV show finale on a given day is immediately followed by a decrease in U.S. stock returns. This effect is stronger in small-cap and high-volatility stocks, whose pricing is more sensitive to sentiment, and is consistent with the hypothesis that negative mood reduces the demand for risky assets.

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"In recent years the last episodes of certain long-running sitcoms have become major cultural events in American life. Record numbers of us turn on our television sets to watch what is going to happen to people who have been part of our lives for a decade or more. It doesn't matter that the people we are worrying over were invented by a team of writers [...], they're people we've grown attached to."

[Mills, 1998]

1. Introduction

During the last ten years, behavioral finance scholars have devoted a considerable amount of attention to the role that incidental mood plays in the context of financial decision making (see [Lucey & Dowling, 2005](#)).¹ This interest has been

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¹ In this paper I follow the behavioral finance literature, and I employ the terms mood, affect, emotion, and sentiment interchangeably. For a review of the literature on the definitions of these concepts, see [Kleinginna and Kleinginna \(1981\)](#).

motivated by the evidence put forward in the psychology literature that mood can affect several variables that determine financial choices, such as risk tolerance, risk perception, and how information is processed by individuals when forming expectations (Johnson & Tversky, 1983; Schwarz & Clore, 1983). In the field of finance, empirical studies relying on observational data have employed mood proxies to measure exogenous variations in investor sentiment. Most of these proxies consist of continuous variables, such as sunshine (Hirshleifer & Shumway, 2003), temperature (Cao & Wei, 2005), and amount of daylight (Kamstra, Kramer, & Levi, 2003), while only a few take the form of discrete (zero-one) variables, such as national teams' wins and losses in sports competitions (Edmans, García, & Norli, 2007) and aviation disasters (Kaplanski & Levy, 2010).

In this study, I introduce a novel discrete mood variable, the end of popular TV series, to analyze the relationships among investor sentiment, the demand for risky assets, and stock prices. This choice builds directly upon the psychology and communication literature, which suggests that television viewers experience negative emotional reactions in response to the termination of their favorite TV shows. Series finales painfully break parasocial relationships that viewers develop with TV characters over time through repeated exposure (Horton & Wohl, 1956), and given the high rate of TV consumption in modern societies, finales influence the mood of large portions of the population at the same point in time and in the same direction. The empirical results suggest that a 20% (one standard deviation) increase in the number of Americans watching a major TV series finale – a proxy for the size of the negative mood wave crossing the country – is followed by approximately an 8 (25) basis point drop in U.S. stock returns the following day, which is consistent with the interpretation that negative investor sentiment reduces the demand for risky assets, all else equal. This pattern is in line with the findings proposed by Edmans et al. (2007) and Chang, Chen, Chou, and Lin (2012), who use sports game outcomes as mood-altering events. Furthermore, the TV show finale effect is stronger for stocks that are believed to be more sensitive to investor sentiment, which provides additional support to the interpretation that the empirical pattern I document is generated by investor mood shifts.

The rest of the paper is organized as follows. In Section 2, I discuss the link between TV series finales and TV viewers' emotional state. In Section 3, I investigate the relationship between incidental mood and investment decisions and present the hypotheses under investigation. In Section 4, I describe the data, and in Section 5, I discuss the main empirical analysis and a battery of robustness tests. In Section 6, I summarize and assess my findings in light of the existing literature.

2. Major TV series finales and viewers' emotional reactions

According to Tooby and Cosmides (2001), “in every industrialized society, every night after work the primary form of recreation is to immerse oneself in the broadcast or projected world of fictionalized lives and events”. Since 1970, TV penetration of U.S. households has been above 95%, and the time U.S. households spend watching TV has constantly increased from approximately six hours per day in 1970 to more than eight hours per day in 2009 (TVB, 2012). Currently, American adults (men and women) spend about five hours per day viewing television.

Interestingly, communication scholars argue that repeated and prolonged exposure to TV shows leads to the formation of so-called parasocial relationships between viewers and TV characters (Horton & Wohl, 1956). Over time, TV viewers “develop a bond with the performers they see on-screen”, and even if they are aware of the distinction between parasocial relationships and real ones, “they react to these familiar characters as if they are a friend or acquaintance” (Lather & Moyer-Guse, 2011). Todd (2011) claims that fans of TV series “do not watch television, they experience it”; by following the plot developments week after week, viewers “become intimately involved in [TV] characters' fictional lives” and relate to them “as they would to real friends, discussing the characters' problems, good news, and antics over the water cooler as well as the dinner table”. Indeed, for numerous TV viewers, “relationships with TV characters [...] are a constant, large, and important part of their social world” (Cohen, 2003). The television industry is well aware of this phenomenon and makes great efforts to “create, strengthen, and perpetuate such [parasocial] relationships” in order to keep viewers loyal and maximize TV show ratings and revenues (Cohen, 2004).

Furthermore, communication scholars have documented that not only do parasocial relationships share commonalities with real social relationships in terms of their formation, but they also do so when it comes to their dissolution. Several empirical studies have provided evidence that the termination of parasocial relationships is indeed emotionally painful. Cohen (2004) finds that viewers who learn they may hypothetically “lose their favorite [TV] characters anticipate negative reactions similar to those experienced after the dissolution of social relationships”. Lather and Moyer-Guse (2011) analyze the emotional reactions experienced by a sample of TV viewers in response to the 2007–2008 Writers Guild of America strike, as a result of which multiple TV series went off the air for a few months. Their findings suggest that the amount of emotional distress produced by a parasocial breakup is positively correlated to the intensity of the original parasocial relationship, and even temporary parasocial breakups can generate negative emotional reactions in TV viewers. Eyal and Cohen (2006) and Todd (2011) investigate the public's emotional response to the final episode of the popular sitcom *Friends*, which attracted 52 million U.S. viewers. They both claim that the conclusion of a popular and beloved TV series is perceived as an emotionally meaningful event, and viewers tend to experience first-hand the sadness that their favorite TV characters typically convey on screen on the occasion of the show's finale. Russell and Schau (2014) analyze the emotional responses of several groups of people to the end of four popular TV series and find that viewers tend to feel sad and a bit lost because they experience a dual loss: the loss of narrative evolution and characters (i.e. the story comes to an end) and the collapse of the social network they built around the series (group viewing/discussion is common among fans of a TV show, and once the show ends the group tends to dissolve).

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