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Reexamining sports-sentiment hypothesis: Microeconomic evidences from Borsa Istanbul☆

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ABSTRACT

This paper examines the impact of international soccer matches on the Turkish stock market using firm-level and sorted-portfolio data. Applying Edmans et al. (2007) estimation method, we found a significant negative loss effect. However, once using panel data analysis as well as modeling spatial and temporal effects explicitly, the sports-sentiment effect disappeared. The same conclusions could be made by replacing win (loss) dummies with unexpected win (loss) variables, removing Monday matches, dropping sports-related firms, and sorting portfolio returns by market capitalization and past returns. Hence, there is very limited micro-evidence to support the 'overreaction' hypothesis of individual investors using Borsa Istanbul data. However, we found evidence that sporting events have a larger impact on stock return volatility for firms with smaller market capitalization and lower past returns.

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1. Introduction

Economic events, such as stock splits, accounting standard, mergers and acquisitions, are believed to have an impact on the value of financial assets.[1] The psychological literature in the past decade showed that even economically neutral events, including weather (Saunders, 1993; Hirshleifer and Shumway, 2003; Cao and Wei, 2005), the daylight-savings time change (Kamstra et al., 2000), the lunar phases of the moon (Yuan et al., 2006), and air pollution (Levy and Yagil, 2011) systematically correlate to variation of asset returns. The basic rationale is that these economically neutral events have potential repercussions on the 'mood' of an investor, which translates into investment behavior that cannot be explained by the rationality principle.

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[1] See Eckbo (1983), Asquith and Mullins (1986), and Wang and Yu (2015).

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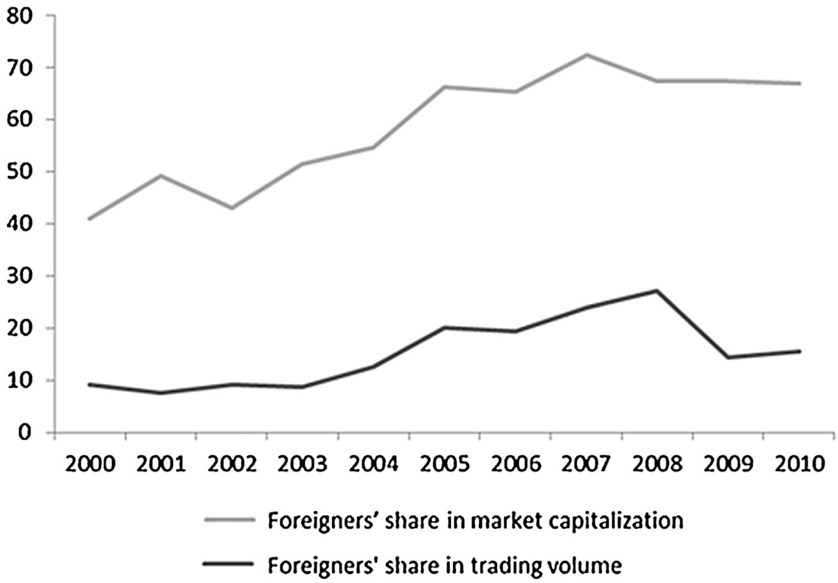

Fig. 1. Foreigners' share in the Istanbul Stock Exchange.
Source: Istanbul University SERPAM, Turkish Capital Market Report 2012 and Gedik Yatırım, BIST Equity Market Foreigners' Trade, May 2013.

One strand of the event-study literature focuses on the impact of sporting events (especially international game results) on asset prices. In fact, motivated by psychological evidence, the relationship between sporting results (especially soccer) and stock market returns has been developed as an important research field in sports economics (Hirt et al., 1992; Ashton et al., 2011; Kerr et al., 2005; Demir and Rigoni, 2014).[2] Edmans et al. (2007) is a seminal piece. Using an international soccer sample comprising matches of 39 different countries for the period from 1973 to 2004, the authors found that losses of national soccer teams led to a strong negative stock market reaction and the loss effect increased with the importance of games.

This study aims at reexamining the sports-sentiment hypothesis using firm-level data from Borsa Istanbul – BIST (formerly known as Istanbul Stock Exchange – ISE). We explore how the performances of three big soccer clubs of Turkey, namely Besiktas (BJK), Fenerbahce (FB) and Galatasaray (GS), as well as the Turkish National Soccer team affected the BIST. To begin, why is Turkey an interesting study? There are two reasons. (1) In developed countries, there are often multiple sporting events, such as football and baseball games, on the same day. They are equally popular. It is difficult to separate the effect of each sporting event. Turkey has no such problem as soccer is the most important and dominant sport in the whole country. It is generally believed that the soccer-sports sentiment is strong. Games against foreign rivals are considered as a fight of national pride in Turkey. Following international game wins, people celebrate the victory with nightlong festivities in the streets. (2) A natural experiment can be conducted to test the investors' overreaction hypothesis. The foreign traders' shares in BIST in terms of market capitalization and transaction volume are shown in Fig. 1. Foreign investors' involvement in the BIST measured by market capitalization rose from around 41% in 2000 to around 67% in 2010. Domestic individual investors trade more frequently than foreign investors do. In 2010, domestic investors held around 33% of market share but generated 84% of trading volume. In contrast, foreign investors owning 67% of market share generated only 16% of trading volume in stock exchange. Nonetheless, by both measures, the involvement of foreign investors increased sharply in the second half of the 2000s. The recent structural change of the BIST provides fodder for a natural experiment: if investors' sports sentiment exists, then the impact of sporting events (whether a positive win or a negative loss) should be stronger in the first half of the 2000s when the market influence of domestic investors was relatively high.[3] We will split the panel data (in Section 4) into two subsample periods to conduct this natural experiment.

Our study differs from the previous literature in four important aspects. First, the scope of analysis is broader. We consider the impact of not only the soccer clubs but also the Turkish national team. This is important as a national team may affect the mood of a larger population in a country. Our dataset covers only international games against foreign clubs and excludes domestic games. International games should affect the mood of the supporters of the club team playing as well as the supporters of other clubs in a similar way due to national pride. Nevertheless, the impact of domestic games can be diluted or eliminated, as the performance of a team will have an opposite effect on other teams' supporters (Eker et al., 2007).

[2] For more recent studies, see also Berument and Ceylan (2012) and Ehrmann and Jansen (2012).
[3] Foreign investors are not liable to react to the results of a Turkish team.

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