Stock Price Correlated to Likeability of Super Bowl Ads

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(PhysOrg.com) -- When TV viewers like a company's Super Bowl commercial, the company's stock price goes up, according to a study by researchers at the University at Buffalo School of Management and Cornell University.

The study, forthcoming in Economics Letters, examined 529 commercials that aired during 17 Super Bowls from 1989-2005, and found that investors favored stocks of firms that aired likeable Super Bowl commercials.

Even in today's volatile market, ad likeability should have a positive effect on stock prices of companies advertising during the Super Bowl broadcast Feb. 1, the researchers say.

The researchers used ratings gathered by USA Today's Ad Meter, a real-time consumer likeability ranking of Super Bowl commercials. They found that firms with the most likeable commercials had higher than normal stock purchases on the days following the Super Bowl, which increased the firms' stock price.

"This reaction is irrational because the stock returns were based solely on likeability of the commercials," says researcher Kenneth A. Kim, associate professor of finance in the UB School of Management. "If the likeability of the commercials caused a subsequent increase in company sales, a stock increase would make sense, but we did not find this to be the case."

"There is a lot of uncertainty in the markets right now. It's harder to pick stocks. If any of us rely on irrational reasons to choose stocks, my hunch is during times like these those reasons get even greater weight in our decision-making," Kim adds.

Firms with commercials that drew a neutral response from viewers did not experience any significant stock price reaction, according to Kim and co-researchers Charles Chang, assistant professor of finance in Cornell University's School of Hotel Administration, and Jing Jiang, a doctoral student in the UB School of Management. Firms with the least-liked commercials also experienced an increase in stock price, but not as much as firms with the most-liked commercials.

The findings on liked commercials demonstrate how people often take mental shortcuts rather than going through longer analytical processing when making decisions that should be complex, Kim explains.

In this case, people bought stock because they liked a firm's TV commercial instead of making a decision based on a firm's long-term value.

These investors appeared to use a mental short cut known as "representativeness bias" when evaluating the firms, Kim says. In investment decision making, representativeness bias is irrationally relating one aspect of a firm to its expected stock returns.

"We're probably all guilty of this bias in our everyday lives. When shopping for a used car, we might think that a clean car is a good car," explains Kim. "We might think a person with a nice haircut is a good person. We might think a tall person is a good basketball player."

In investment decision-making, another example of this bias occurs when investors believe recent past returns are representative of what they

can expect in the future.

Provided by University at Buffalo

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