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Study shows how Olympic Games affect the stock market

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Credit: University of East Anglia

New research reveals how global sports events such as the Olympic Games can affect stock market activity.

The study, by academics at the University of East Anglia (UEA) and Nottingham Trent University (NTU), finds that when a country wins many Olympic medals, national stock market activity in terms of trading volume decreases. However, stock market returns appear to be largely unaffected.

The researchers argue that the drop in trading is because investors, along with the whole population, are distracted. Furthermore, the level of distraction increases with sports success.

For example, for each gold medal won by the US, the trading volume in the S&P 500 firms is almost 3% less on the following day. For Germany and South Korea, this decrease is even higher at 6.7% and 7.3%, respectively. Trading volumes are also significantly less for sponsoring firms following Olympic success in the country they are headquartered.

Authors Raphael Markellos, professor in finance at UEA's Norwich Business School, and Dr. Jessica Wang, senior lecturer at NTU's Nottingham Business School, examined whether the stock market impact of the Games and gold medals is due to a shift in the mood of investors or a distraction of their attention.

A reason put forward for hosting Olympics Games is that they have well-being, feel-good or happiness benefits for the population. However, the study results, published in The *European Journal of Finance*, do not confirm this, as they find no significant link between success in Olympic Games and sentiment among investors. The authors conclude that the Games affect the attention of investors rather than their mood.

The results are based on the analysis of a new dataset of medals over four Summer Olympic Games (Sydney/2000, Athens/2004, Beijing/2008, London/2012) for eight major economies (US, UK, France, Australia, Netherlands, Germany, South Korea, Japan) and five multinational sponsoring firms (Coca Cola, McDonald's, Panasonic, Visa, Samsung).

Prof Markellos said: "The central idea underlying our study is not new.

Since Roman times we have used the phrase panem et circenses—bread and circuses—to describe how public games and other mass spectacles can divert attention. The idea is still very popular, as exemplified by The Hunger Games, the popular trilogy and film series.

"Our results support survey evidence from the London 2012 Games suggesting that around one in four people reported that they are likely to watch or listen to the events coverage at work. We also know that TV viewership in the UK over the Games increased by almost 15%.

"We are not saying in our study that investor sentiment or mood is not important in sports or other large events. However, attention is the bottleneck, a prerequisite for shifts in the mood of investors, which itself is a necessary but not sufficient condition for financial impact. If investors are distracted by a sports loss, for example, the decline in their mood may not find its way into the stock market."

Dr. Wang added: "The stock market patterns we detect are exploitable through an Olympic medal-based volatility trading strategy. We show in our study that such a strategy produces superior profits compared to those from a passive approach. Other significant non-economic events related to sports but also to weather, environment and holidays may also hide opportunities for investors."

'Is there an Olympic Gold Medal Rush in the Stock Market?', Jessica Wang and Raphael Markellos, is published in *The European Journal of Finance*.

More information: Jessica Y. Wang et al. Is there an Olympic gold medal rush in the stock market?, *The European Journal of Finance* (2018). DOI: 10.1080/1351847X.2017.1421245

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