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Positive mood and investment decisions: Evidence from comedy movie attendance in the U.S.

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ABSTRACT

Positive mood has been repeatedly shown to affect decision-making under risk. In this study I exploit the time-series variation in the domestic theatrical release of comedy movies as a natural experiment for testing the impact that happy mood (proxied by weekend comedy movie attendance) has on the demand for risky assets (proxied by the performance of the U.S. stock market). Using a sample of data from 1994 to 2010, I estimate that an increase in comedy attendance on a given weekend is followed by a decrease in equity returns on the subsequent Monday, which is consistent with the mood-maintenance hypothesis.

1. Introduction

The role that mood plays in decision making under risk has been investigated both in the lab and in the field.[1] The findings consistently show that mood can influence people's attitudes toward risk and, in turn, their choices. In the lab, subjects' moods are typically manipulated through exposure to such stimuli as short movie clips, sounds/music, short stories, and small gifts (e.g. Johnson and Tversky,

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[1] Psychologists typically make a distinction among the concepts of affect, mood, and emotion (e.g. Grable and Roszkowski, 2008), yet in the behavioral finance literature it is common to use such terms interchangeably. Here I will follow the latter approach.

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1983; Au et al., 2003; Chou et al., 2007; Isen and Patrick, 1983). Field studies focusing on mood, investment decisions, and aggregate stock market outcomes, on the other hand, generally assume that some environmental factors (e.g. sunshine, hours of daylight, sports results, religious holidays) can trigger mood changes in a large fraction of the investor population, which in turn translate into changes in risk aversion and/or optimism and affect portfolio choices (e.g. Hirshleifer and Shumway, 2003; Kamstra et al., 2003; Edmans et al., 2007; Al-Hajieh et al., 2011). The present paper attempts to bridge between these two streams of literature by exporting a popular mood-manipulation mechanism from the lab to the realm of field research. More specifically, in what follows I investigate whether exogenous fluctuations in comedy movie attendance (exposure to comedy movies being a source of mood enhancement) have an impact on the marginal American investor's decisions and, as a result, on aggregate U.S. stock returns.

A second contribution of this study is that, using real-world data, I test the predictions of two competing theories concerning the influence of positive mood on decision-making under risk. According to the so-called *affect infusion model* (AIM), positive mood fosters risk-prone behavior (e.g. Forgas and Bower, 1987; Chou et al., 2007), whereas the *mood-maintenance hypothesis* (MMH) maintains that people in good moods tend to behave more cautiously in risky situations, especially when potential losses are real and salient, as they try to protect their current good emotional state (e.g. Isen and Patrick, 1983; Isen and Geva, 1987).[2] According to the AIM, one would then expect that the wave of positive mood that follows an increase in weekend comedy attendance should encourage risk taking across the population, thus boosting the demand for risky assets and increasing stock returns on the following Monday. The MMH, instead, implies that the same event should promote risk avoidance, depress the demand for risky assets, and lower equity returns.

The results of my empirical analysis are consistent with the view that positive mood affects investment decisions and lend support to the MMH. Using an instrumental variables approach to address some endogeneity issues and controlling for seasonal dynamics and other factors that may affect equity returns, I estimate that a one-standard-deviation increase in comedy attendance on a given weekend is followed by roughly a 0.11% decrease in stock returns on the subsequent Monday. This decrease is more pronounced (i.e. 0.16%) in the more recent sub-sample, consistently with the view that the advent of the Internet and the growth of online trading has increased the fraction of unsophisticated investors in the market, the decisions of whom are more sensitive to sentiment (e.g. Ahmed et al., 2003). This mood effect is both statistically and economically significant, especially when compared to similar studies in the literature (e.g. Hirshleifer and Shumway, 2003; Cao and Wei, 2005). Its sign is consistent with the hypothesis that investors are less willing to take risks when experiencing a (movie-induced) positive mood.

In order to provide more evidence on the link of causality, I also examine the cross section of stock returns. According to Baker and Wurgler (2006) and Kumar (2009), investor sentiment exerts a larger influence on the pricing of stocks that feature a high valuation uncertainty and that are difficult to arbitrage. Based on these insights, one would expect to observe a stronger impact of mood on the pricing of (among others) high-volatility stocks, extreme-growth stocks, distressed stocks, and small-cap stocks. Indeed, when my analysis is conducted on portfolios of stocks, the marginal effect of comedy attendance is estimated to be increasing (in absolute value) in the volatility of stocks, and there is also some marginal evidence that the valuation of extreme-growth and distressed stocks is more sensitive to comedy-induced positive mood.

The rest of the paper is organized as follows. Section 2 presents the lab and field evidence on the relationship between positive affect and risk-taking behavior and discusses the MMH and AIM. Section 3 puts forward the hypothesis that will be tested. Section 4 describes the data, and section 5 contains the empirical analysis. Section 6 concludes.

[2] To the best of my knowledge, the stream of literature concerning the MMH has been almost entirely overlooked so far in the behavioral finance arena, while it has gained much attention from psychologists. As such, an additional contribution of this paper consists in bringing this important area of investigation to the attention of finance experts.