Weather, Mood and Stock Market Returns in Argentina

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Received: October 3, 2018          Accepted: November 14, 2018          Online Published: November 20, 2018

doi:10.5430/afr.v7n4p159          URL: https://doi.org/10.5430/afr.v7n4p159

Abstract

The paper examines the relationship between weather and stock market returns in the Argentina’s stock market using daily data from 2001 to 2014 and regression models. The data consists of stock market returns, temperature, humidity and wind. The empirical findings show that all weather variables (temperature, humidity and wind) have significant relationship with stock market returns in some of the trading days in the week. We also find evidence of the existence of day-of-week effect in the stock market. On average, the highest return falls on Friday and lowest return falls on Monday. Temperature is considered very significant in influencing the stock market returns in Argentina. Our findings suggest that the stock market returns are higher when the temperature is higher. This phenomenon is related to the seasonal affective disorder (SAD). We can conclude that stock market of Argentina is not informational efficient. The results have major implications for traders, individual investors, fund managers and financial institutions to make investment planning in the Argentina’s stock market.

Keywords: weather, investors’ mood, stock returns, Argentina

1. Introduction

Psychologists have proven that sunlight affect people’s moods, thinking, judgment and decision-making. There are numerous studies conducted on the impact of weather on mood and decision making. Chang et al. (2006) argued that weather is an important factor that may affect human moods, and thus may affect investors’ behavior in the stock market. In addition, Howarth and Hoffman (1984) have shown that human become more optimistic when exposed to sunshine. In addition, Isen (2000) pointed out that human perform better in creative problem solving in a good mood. However, Sinclair and Mark (1995) have argued on the downside of a good mood is less evaluation and analysis are made on the information provided and eventually lead to a less accurate decision making. Weather is believed to have an impact on investors’ mood which will obstruct their decision making. When an investor is affected by the weather, either they are in a good mood or bad mood, it affects their decision in the buying or selling decision. Later the investor’s decision influences the fluctuation of the stock market prices. For example, Brahmana et al. (2014) found that on average, Monday has a higher temperature as compared to other days-of-the week and the higher temperature has triggered the human body to have heuristically biased in decision-making. When people are in a happy mood, their judgment would be more positive as compared to sad mood. In addition, Hirshleifer and Shumway (2003) also provided evidence that weather affects the investors as well as the stock return. They found that stock returns are significantly higher on sunny days than on rainy days. Saunders (1993) has shown that cloud cover has a negative impact on the US stock returns. However, Denissen et al. (2008) argued that a good weather will not bring pleasant moods to an individual instead the weather variables like sunlight, wind power and temperature appeared to have negative effects on the human mood.

Although there have been voluminous studies examining the impact of weather on stock returns in both developed and emerging markets, the mixed results are reported. Some studies found the existence of positive relationship between weather and stock returns (see Dowling & Lucey, 2005) while some observed a negative relationship between weather and stock returns (see Shu & Hung, 2009; Floros, 2011; Yoon & Kang, 2009; Cao & Han, 2015). There are also studies show evidence of no significant relationship between the variables (see Keef & Roush, 2007; Saporoschenko, 2011; Wang et al. 2011). In the context of Argentina, there are still limited number of studies documented on this issue. Giovanis (2009) only focuses on the monthly effect in the stock market of Argentina while Rodriguez (2012) and Dumitriu and Stefanescu (2013) have examined the day of the week effect. Argentina is