The Stock Market Valuation of Football Game Results

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Abstract

Research Question / Aim of the Paper

This paper aims to study the stock market reaction to football clubs` sporty results in the European context. Concretely, it tries to examine the market reaction in terms of abnormal returns and volume of transactions around the dates of played matches.

Theoretical Background

Contrary to the industrial and commercial companies who often publish quarterly results that affect the share price performances, the stock market valuation of listed football teams may depend on other types of information, in particular the sporty results. Indeed, as specified by Renneboog and Vanbrabant (2000), the ownership structure of listed football teams is generally composed by a principal shareholder (i.e. a blockholder), some institutional investors (football funds) and an important number of individual investors, mainly clubs` fans. Consequently, the stock market valuation of football teams may depend on the regard of these "emotional" shareholders (i.e. supporters holding shares of their team). In this field, the empirical results of various former research studies (Renneboog and Vanbrabant, 2002, Stadtmann, 2006, Edmans et al., 2007, etc.) seem to highlight a behavioral difference between "traditional" investors animated by an economic rationality and "fan" investors animated by an emotional rationality. This emotional rationality depends on the sporty game results. According to Edmans et al. (2007), the "allegiance bias" can help to a better understanding of this kind of rationality. Thus, if the reference point of football fans is that their club will win, then we may find a greater stock market reaction after defeats or draws than after victories.

Methodology / Research Design / Data

An event study is undertaken around the dates of matches played by the European listed football clubs. This methodology makes it possible to examine the stock market reaction to a fact of importance (i.e. in our study, the played matches). Our final sample is composed of 745 matches played between the July 13th, 2006 and July 10th, 2007.

Results / Discussion / Implications

The empirical analysis leads to several interesting results. In particular, it shows that the football game results affect as well the share abnormal returns as the volume of transactions around the dates of played matches. The sign (positive or negative) and the moment of realization of the impact (before or after the match) differ according to nature of the game result (defeat, draw or victory) and the place of the match (at home or outside). This paper shows that the success of investments in listed football clubs requires a regular follow-up of their sporty performances.

References

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