Fasting 'feel-good' factor impacts stock markets

August 10 2010

A new international study investigating the correlation between the Islamic holy month of Ramadan - which begins next week (August 11/12) - and stock markets has discovered that the average stock market returns in predominantly Muslim countries were historically almost nine times higher during Ramadan compared to other months of the lunar calendar.

Jedrzej Bialkowski (University of Christchurch, New Zealand), Ahmad Etebari (University of New Hampshire, United States) and Tomasz Piotr Wisniewski (University of Leicester, UK) also discovered that, at the same time, the volatility of these markets declined. These conclusions are based on a sample of 14 stock markets located in countries where Muslims constitute at least 50% of the population.

Dr Wisniewski, of the School of Management at the University of Leicester, said: "For many Muslims around the world, Ramadan represents a very important period of self-improvement - it represents a spiritual and moral training that shapes their lives for the months ahead, from one Ramadan to the next. Followers of Islam are expected to help the underprivileged members of society, work towards improving their interactions with others, show forgiveness and compassion."

"It is also a time in which the social and family ties are strengthened. Fasting from dawn to dusk is an integral part of the holy month. Several academic studies confirmed health benefits arising from Ramadan-type fasting, such as lower LDL cholesterol, loss of excessive fatty tissue or reduced anxiety in the fasting subjects."

"According to the new research findings, the heightened sense of social integration and possible salubrious effects of the changed dietary regimen may influence the sentiment of the investing public."

"Our research reveals that that it is not only the fundamentals, but also psychology of investors that drives the valuations in stock markets. "

Although the trading implications for market participants are clear enough, researchers advise caution. Typically, when an anomaly is discovered, smart money will try to arbitrage it out.

More information: ssrn.com/abstract=1470048

Provided by University of Leicester