

Media Relations

Start Of Ramadan Could Signal Substantial Stock Gains

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DURHAM, N.H. – During the holy month of Ramadan, which starts next week, stock returns are almost nine times higher in predominately Muslim countries than during other times of the year, an indication that Ramadan positively affects investor psychology and leads to optimistic beliefs that extend to investment decisions, according to research from the University of New Hampshire.

The mean annualized return realized by investors during the holy month was 38.09 percent, compared to a rather modest gain of 4.32 percent throughout the rest of the year, according to Ahmad Etebari, professor of finance and chair of the UNH Department of Accounting and Finance.

Observed by more than 1.5 billion Muslims, Ramadan is one of the most celebrated religious rituals in the world. Etebari and his co-researchers investigated stock returns during Ramadan for 14 predominantly Muslim countries over the years 1989-2007: Oman, Turkey, Kuwait, United Arab Emirates, Qatar, Pakistan, Jordan, Egypt, Morocco, Tunisia, Malaysia, Bahrain, Indonesia, and Saudi Arabia.

"We believe that the Ramadan effect can best be explained by a change in investor psychology. Ramadan is a religious month that affects almost every aspect of Muslims' lives. Besides fasting and prayers, Ramadan promotes heightened social awareness and a closer relationship with Allah and with other fellow Muslims around the world. As a fundamental shared experience, Ramadan brings about a sense of solidarity among Muslims, enhances their satisfaction with life and encourages optimistic beliefs. This optimism affects investor sentiment and decisions leading to the price run-ups we found," the researchers said.

The researchers checked whether the effect was due to market liquidity, length of the daily fasting period, and some well-known fixed calendar anomalies, notably the Monday, January and Halloween effects. None of these factors explain the results.

"Investors seeking fast profits in the Muslim world should try to profit from the fast, buying shares prior to the start of Ramadan and selling them at the end of the holy month or preferably immediately after Eid al-Fitr. Of course, there are transactions costs that one would need to take into account, but any such costs would appear to pale in comparison to the observed returns," the researchers said.

"Alternatively, investors could embark on a more passive strategy by delaying their sales until the end of the holy month or by accelerating the timing of purchases ahead of it," they said.

Etebari conducted the research with Jędrzej Białkowski from the University of Canterbury, Christchurch, New Zealand, and Tomasz Wisniewski from the University of Leicester, Leicester, England.

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Editors and Reporters: "Piety and Profits: Stock Market Anomaly During the Muslim Holy Month" is available from the Social Science Research Network at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1470048.

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