Despite cultural differences that set people apart, there exist certain universal themes that bring people together. One such theme is a common sense of optimism at the beginning of a new year. People throughout history have celebrated the hope of a happier tomorrow at the advent of a new year. For the Western world, the New Year falls on January 1, the beginning of the Gregorian calendar year; however, other cultures celebrate different New Years according to their traditional calendars. For example, China’s New Year (Spring Festival) falls in January or February, Thailand’s New Year (Songkran) falls in mid-April, and Israel’s New Year (Rosh Hashanah) falls in September or October. While these cultural New Year holidays are celebrated with different traditions and at different times of the year, these New Year celebrations all share a common uplifting mood and, in many cases, individuals enjoy cash infusions, in the form of employee bonuses, prior to the cultural year-end.

We examine how this shared optimistic mood around cultural New Year holidays impacts stock markets worldwide and how cash infusions and the dominance of individual investors facilitate this process. Specifically, we study equity performance in 11 major international stock markets from 1991-2011 surrounding six cultural New Year holidays (e.g., Chinese, Islamic, Jewish, Korean, Sinhalese, and Thai New Year holidays) and find that stock markets tend to outperform surrounding the cultural New Year. We further demonstrate that this cultural New Year effect is most pronounced among stocks with characteristics favored by individual investors, such as low price, high idiosyncratic volatility, and high past extreme daily returns. This individual investor clientele effect is stronger among countries where employees receive bonuses at the turn of the cultural New Year.

Our contribution to the literature is to demonstrate how a transcendent theme across cultures at different times of the year is associated with a similar pricing effect across international equity markets. In contrast, prior work on culture and finance has primarily focused on how cultural differences lead to different effects in international financial markets. For example, differences in religion explain variations in creditor rights across nations (Stulz and Williamson, 2003). In addition, cultural differences can lead to differing impacts of social interaction on individual trading decisions (Ng and Wu, 2010). Further, different levels of individualism among cultures affect herding behavior, trading volume, volatility, momentum, and corporate risk-taking (Beckmann, Menkhoff, and Suto, 2008; Chui, Titman, and Wei, 2010; Li, Griffin, Yue, and Zhao, 2013). In contrast, we posit that a similar optimistic mood around
cultural New Year holidays will result in a similar positive effect on stock prices across different cultures.

Our study is related to the prior investor mood literature that primarily focuses on mood changes prompted by exogenous shocks (e.g., sunshine, sports teams’ performance, or aviation disasters) and finds that these mood changes influence aggregate stock market performance (Saunders, 1993; Hirshleifer and Shumway, 2003; Edmans, García, and Norli, 2007; Kaplanski and Levy, 2010). Yet, these proxies for mood state are not known ex ante, making it difficult to exploit the direct effect of mood on security prices. In contrast, holidays as proxies for mood swings are predictable, as the dates of holidays are scheduled far in advance. Thus, the pricing effect of investor mood surrounding holidays is more likely to be exploitable.

Another line of research, including Frieder and Subrahmanyam (2004), Bialkowski, Etebari, and Wisniewski (2012), and Kaplanski and Levy (2012), has recognized holidays as a proxy for investor mood. However, none of these studies examines different cultural holidays across multiple nations and the cross-sectional differences in the effect of holidays on individual stocks, which are our focus. For instance, Bialkowski et al. (2012) study aggregate stock market returns across different international markets for the single holy month of Ramadan and find a Ramadan effect only in those countries that are predominantly Muslim. In contrast, we examine distinct cultural New Year holidays across a set of major international markets with different religions and traditions, guided by the idea that optimism around the cultural New Year is common across cultures.

Moreover, our study provides a clean test of our hypotheses in that it is unclouded by tax loss selling or short selling. Unlike the January 1st New Year, many of these cultural New Year holidays do not fall on the same day or even the same month year after year in the Gregorian calendar. Thus, the cultural New Year does not usually coincide with the tax year and, even when it does, a majority of the markets in our sample do not impose a separate capital gains tax. Therefore, our tests are not confounded by tax loss selling, a common explanation for the January effect (Reinganum, 1983). Nor are our findings explained by short selling activity as our results remain significant when we exclude countries that allow short selling (Fields, 1934).

While the January effect in Western markets has been extensively studied, our study is the first to comprehensively examine stock market performance surrounding diverse cultural New Year holidays across significant international markets. The countries in our sample account for over 27% of the world’s population and nearly 20% of the world’s total market capitalization. In our empirical tests, we determine that stock returns are significantly higher in the days surrounding the cultural New Year relative to other trading days of the year after controlling for those days surrounding January 1 (as the January effect is present in several countries in our sample). At the aggregate level, the average daily country portfolio return is 21 basis points higher during the (-4,+4) window surrounding the cultural New Year’s Day as compared to daily returns during other days, after adjusting for world market risk and controlling for the January effect and country fixed effects. Further, this cultural New Year effect is present across most of our sample countries and is observed in both the earlier and later sample periods.

In addition to testing at the aggregate country portfolio levels, we also test at the individual stock levels, an avenue rarely explored by prior work on holidays or mood. Using a
A rich panel of monthly firm-level characteristics and returns, we find that the cultural New Year effect remains economically and statistically significant in a majority of our sample countries after controlling for the January effect and the firm characteristics of market capitalization, book-to-market ratio, short run past return, momentum, and illiquidity. The monthly abnormal stock return is, on average, 2.50% higher in the cultural New Year month, the month in which a majority of the (-4,+4) window around the cultural New Year’s Day falls, as compared with other months.

To provide further evidence that the cultural New Year effect is induced by investor mood swings surrounding the cultural New Year, we determine whether a certain subset of individual stocks experience a stronger impact from the cultural New Year. We hypothesize that individual investors are more subject to the influence of mood and, as such, expect a stronger mood effect on the subset of stocks that individual investors tend to trade. Specifically, we identify stocks with an individual investor clientele using a composite individual investor clientele index that incorporates three stock features: 1) low stock price, 2) high firm-specific volatility, and 3) high past extreme daily return (Kumar, 2009; Bali, Cakici, and Whitelaw, 2011). Using panel regressions that control for firm characteristics, we find that stocks with an individual investor clientele significantly outperform their counterparts traded in the same country during the cultural New Year month. Further corroborating evidence indicates that stocks in countries with a lower concentration of institutional ownership exhibit a stronger cultural New Year effect. Collectively, this evidence suggests that investor mood affects stock prices through the channel of individual investors’ trading.

Finally, we find that cash infusions, in the form of employee bonuses distributed at the cultural year-end, contribute to the influence of investor holiday mood on stock prices. Upon a positive cash infusion, investors, under an optimistic holiday mood, are more likely to favor equity over bonds as optimism induces greater risk-taking (Forgas, 1995). In the presence of borrowing constraints, stock investment is made possible by a cash infusion. Consistent with this hypothesis, for the subset of markets where investors experience a cash infusion prior to the cultural New Year holiday, the abnormal returns around the cultural New Year remain significantly more pronounced for individual investor clientele stocks. However, for the remaining subset of markets, this cultural New Year effect dissipates and stocks with an individual investor clientele experience significantly lower, not higher, returns surrounding the cultural New Year.

Our study is the first to confirm that a universally positive New Year holiday mood across different cultures has a similar impact on equities worldwide. We examine six distinct cultural New Year holidays, including Chinese, Islamic, Jewish, Korean, Sinhalese, and Thai New Year holidays, that fall on different days or even months based on the year. By investigating the impact of non-fixed calendar holidays, our study provides a clean test in that it is unclouded by tax loss selling unlike the January 1st New Year. Our results contribute to the emerging literature linking the well-known holiday effect (Ariel, 1990) with investor mood in an international context (Frieder and Subrahmanyam, 2004; Bialkowski et al., 2012; Kaplanski and Levy 2012).