

# **The Impact of Investor Sentiment on Market Behavior: An Evaluation of Trends in NBA Betting Markets**

Norman H. Godwin  
**Auburn University**

Kimberly G. Key  
**Auburn University**

Rebecca Toppe Shortridge  
**Northern Illinois University**

The purpose of this project is to evaluate the impact of sentiment on the behavior of investors utilizing data from NBA betting markets. Barberis, Shleifer, and Vishny (BSV) (1998) developed a model that accounts for the impact of investor sentiment on over- and under- reactions to market information. Prior empirical research that evaluates BSV's model provides mixed results. Using a sample of MBA students, Bloomfield and Hales (2002) documented that students relied on past performance to predict future performance; thus indicating that BSV's model can help explain investors' behaviors resulting in inefficiencies in the stock market. Results reported in Durham, Hertz, and Martin (2005) that relied on a sample from college football wagering markets do not support the BSV model. Instead of believing that a trend would continue, market participants believed that the longer the winning streak was, investors were more likely to believe the trend would reverse. This paper will provide stronger tests of the BSV model using a large sample from the NBA betting market. Betting markets provide an ideal setting to evaluate investor sentiment because they have many characteristics that are similar to stock markets. Avery and Chevalier (1999) who utilized betting markets from the National Football League to examine the impact of investor sentiment in stock markets, explain that betting markets reach a terminal value in a short period of time such that the success of the bet can be ascertained. Knowing the game outcomes provides the ability to consider if the bet was successful and if investors were trading on relevant information or sentiment.

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