What’S in a Name: Sound Symbolism of Stock Ticker Symbols Predict Stock Performance

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Despite the assertions of economic theory, the “rational man” has yet to be discovered. The current work contributes to this assertion and explores how the decidedly non-economic factor of phonetic symbolism (meanings association with sounds) of a stock’s ticker symbol impacts the stock’s performance during the first year of trading.

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EXTENDED ABSTRACT

Despite the assertions of economic theory, the “rational man” appears to be influenced by irrational factors on a daily basis. The current research contributes to this literature by examining the role of a stock’s ticker symbol on its stock performance. Specifically, our research is concerned with the question of “What is in a name?” within the context of ticker performance. Stock investment decisions would seem to be high involvement and rational choice processes, yet research has documented an array of seemingly non-economic influences: the weather (Kamstra, Kramer, and Levy 2003) or the loss of a favorite team (Edmans, Garcia, and Norli 2007). Even the mere fluency (easy of processing) of pronounceable stock names can affect stock performance. Stock names that are more pronounceable outperform those that are less so (Alter and Oppenheimer 2006).

Ticker symbols serve as a key identifier by which investors recognize stocks in which they invest. Consequently, simple changes in ticker symbols can lead to a significant drop in price, presumably because the change induces a certain level of investor confusion (Kadapakkam and Misra 2007). Superstition also affects stock performance. For example, Chinese tickers contain numbers and letters. Using “lucky” numbers in Chinese culture in one’s company ticker leads to higher returns in the first year of trading (Hirshleifer, Jain, and Zhang 2012).

Given the stock ticker symbol’s role as a key identifier, we propose that phonetic symbolism, which is based on the sound of pronounceable ticker symbols, may also affect a stock’s performance after its initial public offering (IPO). Therefore, the choice of ticker symbol sound is a potentially important part of the IPO decision, as its sound could be used to communicate information to potential traders. Phonetic symbolism refers to this notion that the mere sound of words convey information (French 1977). One way of classifying consonants is as stops or fricatives. Stop consonant sounds are formed through complete closure of articulators so that air cannot escape the mouth. The letters p, t, b, g, d, and k (or hard c) are considered stops, whereas the letters f, s, v, and z are considered fricatives (Ladefoged 1975). Fricatives do not have complete closure of the articulators, and thus these sounds are created by forcing air through constrictions in the vocal tract. Research shows that these two types of sound convey very different concepts. Relative to fricatives, stops are considered larger, heavier, harder, more powerful, and more masculine (Klink 2000).

Just as brands can utilize the role of sound symbolism to design names (Klink 2000; Lowrey and Shrum 2007; Yorkston and Menon 2004), phonetic symbolism may also be important for designing superior-performing stock tickers. The current research predicts that stop (vs. fricative) consonant sounds, which are more associated with concepts such as power, size, and strength, will outperform those with fricative consonants, at least in the short-term.

Study 1 used the same data set that Alter and Oppenheimer (2006; study 3) generated for their study. Two coders blind to the hypothesis coded whether the initial consonant sound for each pronounceable ticker symbol was a fricative, stop, or neither, with 90% agreement.

To test our hypothesis, we conducted a MANOVA with the stop/fricative distinction as the independent variable and the percent change in stock price at the four time points as the dependent variables. The results lend initial support for our phonetic symbolism hypothesis: Pronounceable stock ticker symbols with initial stop sounds outperform stock symbols with initial fricative sounds throughout the first year of trading.

Study 2 was conducted as a lab study in which business school students read a description of an IPO. Real IPO offerings were used as stimuli, but the ticker symbols were systematically manipulated throughout the IPO descriptions, so that the description and valuation data were the same across the pairings with the exception of the ticker symbols, which either had an initial fricative (e.g., VIF, FON) or stop (e.g., BIF, BON) sound (between subjects). After reading the IPOs, participants indicated how well they thought the stock would perform 1 month and 1 year later (1 = not well at all, much lower price; 9 = very well, much higher price). (Tell what happened here; i.e., report the results in prose).

We also examined how perceptions of different industries, based on gender (masculine vs. feminine), might lead to differing effects. This matchup hypothesis should occur from the “feel right” effect of matching sound meaning to femininity/masculinity of the company, as demonstrated in previous work on phonetic symbolism and brand names (Yorkston and Menon 2004). Stop sounds were predicted (by participants) to outperform fricative sounds for the masculine industry (financial management), but the reverse was found to be true for the feminine industry (restaurant group).

Study 3 used a new secondary dataset from the New York and American stock exchange (IPOs from 1980-2004). Tickers were coded by an individual blind to the hypotheses, for pronounceability and then based on consonant sounds and gender of industry. The stocks were initially analyzed with MANOVA separately for the masculine and feminine industries. Although the feminine industry results were slightly weaker than those of the masculine industry, both sets indicated a pattern in which tickers with initial stop sounds had higher returns. Therefore, the dataset was collapsed across industries to allow for greater power in analyzing the consonant effects. Across the collapsed dataset we find a strong pattern, where stops outperform fricatives significantly, or marginally at least, throughout the first year of trading.

Companies are able to choose their own ticker symbols as they enter exchange markets. Therefore, those who design stock names and tickers during the IPO process would be well served to design their names such that they are easy to pronounce and have a ticker symbol with a stop consonant, to indicate and hopefully induce stronger initial performance. Although this effect might diminish, as more objective performance data becomes available, these effects speak strongly to the ability to get your stock performing on the right foot from the start.

REFERENCES


