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Author: Deng Pan Jing Shi Fei Wu Bohui Zhang

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## Investor heterogeneity and commonality in stock return and liquidity

Deng Pan<sup>a,\*</sup>, Jing Shi<sup>b,\*\*</sup>, Fei Wu<sup>c,\*\*\*</sup> and Bohui Zhang<sup>d,\*\*\*\*</sup>

<sup>a</sup>*Fudan University, Shanghai, China*

<sup>b</sup>*School of Economics, Finance and Marketing, RMIT University, Melbourne, Australia*

<sup>c</sup>*Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University, Shanghai, China*

<sup>d</sup>*University of New South Wales, Sydney, NSW, Australia*

### Abstract

This paper examines how the trading activities of different investor types are related to common return and liquidity movements. Using a unique dataset, we decompose the daily return and liquidity of individual stocks into price impact components attributable to trades of institutional investors and retail investors. We then investigate the variation of each component relative to market-wide return and liquidity. We show that institutional trades contribute more than retail trades to liquidity commonality. However, retail trades contribute more strongly to return co-movement. The incremental contribution of retail trades to the co-variability of stock returns is more pronounced for firms with high information asymmetry.

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\**E-mail address:* [pandeng@hotmail.com](mailto:pandeng@hotmail.com)

\*\**E-mail address:* [jshi666@gmail.com](mailto:jshi666@gmail.com)

\*\*\*Corresponding author. *E-mail address:* [fwu@saif.sjtu.edu.cn](mailto:fwu@saif.sjtu.edu.cn)

\*\*\*\**E-mail address:* [bohui.zhang@unsw.edu.au](mailto:bohui.zhang@unsw.edu.au)

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