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Abstract

In this paper we examine how stock return synchronicity relates to changes in market-based measures of information-based trading in response to analyst recommendation revisions. We find that the market response to analyst recommendations varies according to R^2: stocks with lower R^2 experience stronger price, trading volume, return volatility, and bid-ask spread reactions in response to revisions of analyst recommendations. The impact of R^2 is strongest among smaller companies, suggesting an elevated role for analysts in disseminating information when prices may be less informed. In a multivariate context, these results are robust to the inclusion of additional explanatory variables including firm size. Our results support the premise that R^2 is inversely related to the noisiness of the information environment.

Keywords: Return synchronicity; Price informativeness

JEL Code: G14

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