

## Accepted Manuscript

Stock Return Synchronicity and the Market Response to Analyst Recommendation Revisions

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PII: S0378-4266(15)00147-8

DOI: <http://dx.doi.org/10.1016/j.jbankfin.2015.04.021>

Reference: JBF 4728

To appear in: *Journal of Banking & Finance*

Received Date: 26 March 2014

Accepted Date: 20 April 2015

Please cite this article as: Devos, E., Hao, W., Prevost, A.K., Wongchoti, U., Stock Return Synchronicity and the Market Response to Analyst Recommendation Revisions, *Journal of Banking & Finance* (2015), doi: <http://dx.doi.org/10.1016/j.jbankfin.2015.04.021>

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**Stock Return Synchronicity and the Market Response to Analyst Recommendation****Revisions**

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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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