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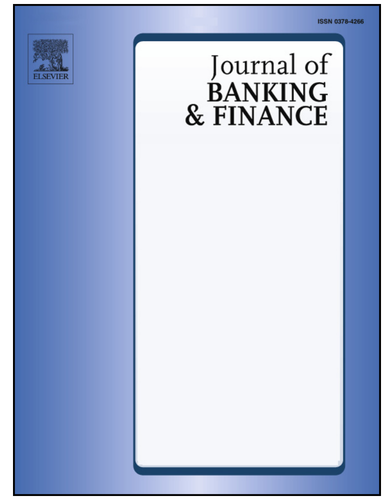

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Why Do Options Prices Predict Stock Returns? Evidence from Analyst Tipping[1]

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Abstract

We study the role of analysts and options traders in the information transmission between options and stock markets. We first show that the predictive power of option implied volatilities (IVs) on stock returns more than doubles around analyst-related events, indicating that a significant proportion of the options predictability on stock returns comes from informed options traders' information about upcoming analyst-related news. We examine three explanations for this finding: tipping, reverse tipping and common information. We find that analyst tipping to options traders is the most consistent explanation of these predictive patterns.

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