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Institutional Ownership and Return Predictability Across Economically Unrelated Stocks

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Abstract

We document strong weekly lead-lag return predictability across stocks from different industries with no customer-supplier linkages (economically unrelated stocks). Between 1980 and 2010, the industry-neutral long-short hedge portfolio earns an average of over 19 basis points per week. This predictability is related to common institutional ownership and is distinct from previously documented lead-lag effects. Common institutional ownership is a complementary rather than a substitute explanation for return predictability. Information linkages are enough to induce return predictability among stocks in the same industry, but economically unrelated stocks exhibit return predictability *only* when they have common institutional owners. Our findings suggest that institutional portfolio reallocations can induce return predictability among otherwise unrelated stocks.

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