

## Heterogeneity of institutional ownership and stock price delay

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**Abstract:** This study examines how heterogeneous institutional ownership affects stock price delay. Our result shows higher total institutional ownership and the number of institutions reduce price delay. We further classify institution types from stock's perspective (top 5 and year-long) and institution's perspective (low churn rate, high churn rate, concentrated, skilled, and independent). After controlling the total institutional ownership, investor attention, and firm characteristic variables, we find ownership from top 5 and low churn rate, and ownership increase from independent institutions help lower price delay while high churn rate, concentrated, and skilled institutional ownerships increase the delay. Moreover, the price delay components related to year-long, high churn rate, concentrated, and skilled institutions are positively associated with expected stock returns. Our results suggest while top 5 and low churn rate institutions actively monitor firms and reduce price delay, high churn rate, concentrated, and skilled institutions may utilize their information advantage and hinder uninformed investors' trading, resulting in delayed price adjustment to information.

**JEL Classification:** G12, G14, G20

**Keywords:** institutional ownership, stock price delay, market frictions, information asymmetry, information efficiency

## 1. Introduction

More and more people delegate their stock investment decisions to professional institutional investors and currently the institutional ownership of common stocks' value is more than 50% in the U.S. stock market.<sup>1</sup> While the competition among institutional investors helps share prices efficiently reflect information, information asymmetry and adverse selection resulting from their information advantage may hinder the information dissemination to share prices. Since institution investors vary across their regulatory and competitive environments as well as across their investment strategies and skills (Badrinath, Kale and Ryan, 1989; Del Guercio, 1996; Falkenstein, 1996; Bushee, 2001; Hotchkiss and Strickland, 2003; Bennett, Sias, and Starks, 2003; Yan and Zhang, 2009; Lewellen, 2011), it is critical to understand how different types of institutional ownership affect stock price discovery and market efficiency. We believe a thorough analysis for this question is important for two reasons. First, institutions which increase price efficiency and reduce price delay of their holding stocks should be encouraged because shares with less friction to trade will result in a lower cost of equity and more positive NPV projects for their holding firms. Second, institutions which increase a stock's price delay should be discouraged to hold the company's stock because their informed trading may cause uninformed investors to refrain from holding the stock, reducing the stock's liquidity and increasing the firm's financing cost.<sup>2</sup>

Previous studies have shown that institutional investors as a whole help improve price efficiency. Hou and Moskowitz (2005) document that investor recognition variables including total institutional ownership are most responsible for the U.S. stock price delay effect.<sup>3</sup> Using NYSE-listed stocks, Boehmer and Kelley

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<sup>1</sup> As of December 2013, the percentage of 3695 common stocks' value held by institutions in our sample is 62.08%.

<sup>2</sup> Lin, Singh, Sun, and Yu (2014) document that firms with greater price delay have more difficulty attracting traders (higher incidents of non-trading) and their investors face higher liquidity risk, which accounts for their anomalous returns.

<sup>3</sup> Investor recognition variables in Hou and Moskowitz (2005) include institutional ownership, analyst coverage, number of shareholders, number of employees, advertising expense, regional exchange dummy, the average

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