SPRINGER LINK

Menu

Search

🗀 Cart

Home > Journal of Economics and Finance > Article

Index fund rebalancing and market efficiency

Published: June 1994

Volume 18, pages 219–229, (1994) Cite this article



Journal of Economics and Finance

Aims and scope →
Submit manuscript →

A. Steven Graham¹ & Wendy L. Pirie Ph.D. candidate²



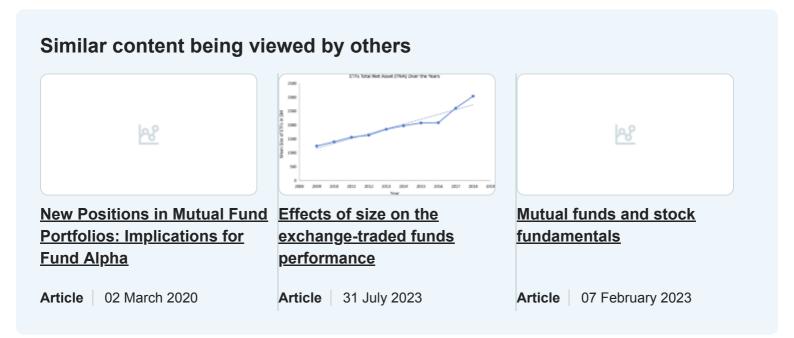
Abstract

Stocks newly added to the S&P 500 Stock Index experience significantly positive abnormal returns on the date of their inclusion. This study looks at the rebalancing required by index funds when RJR/Nabisco was replaced by First Union. On that date, approximately one percent of the market capitalization was removed and had to be reallocated among the remaining 499 stocks in the Index, but there was no change in information or attention for these 499 stocks.

We find that while there was abnormal trading volume on the original takeover date, there were no abnormal returns. The only hypotheses consistent with previous results, as well as these results, are the information or the attention hypotheses, that stocks newly added to the index have positive information disclosed or experience increased investor attention.



Access this article Log in via an institution→ Buy article PDF 39,95 € Price includes VAT (Poland) Instant access to the full article PDF. Rent this article via DeepDyve [2] Institutional subscriptions →



References

Ajinkya, Bipin B., and **Prem C. Jain**. "The Behavior of Daily Stock Market Trading Volume." *Journal of Accounting and Economics* 11, no. 4 (November 1989): 331–359.

Barber, Brad M., and **Douglas Loeffler**. "The Dartboard Column: Second-Hand Information and Price Pressure." *Journal of Financial and Quantitative Analysis* 28 no. 2 (June 1993): 273–284.

Article Google Scholar

Binder, John J.. "On the Use of the Multivariate Regression Model in Event Studies." *Journal of Accounting Research* 23 no. 1 (Spring 1985): 370–383.

Article Google Scholar

Brown, Stephen J., and **Jerold B. Warner**. "Using Daily Stock, Returns: The Case of Event Studies." *Journal of Financial Economics* 14 no. 1 (March 1985): 3-31.

Article Google Scholar

Dhillon, Upinder, and **Herb Johnson**. "Changes in the Standard and Poor's 500 List." *Journal of Business* 64 no. 1 (January 1991): 75–85.

Article Google Scholar

Edmister, Robert O., A. Steven Graham and **Wendy L. Pirie**. "Excess Returns of Index Replacement Stocks: Evidence of Liquidity and Substitutability" *The Journal of Financial Research* 17, no. 3 (Fall 1994): 333–346.

Google Scholar

Grinblatt, Mark S., Ronald W. Masulis and **Sheridan Titman**. "The Valuation Effects of Stock Splits and Stock Dividends." *Journal of Financial Economics* 13, no. 4 (December 1984): 461–490.

Article Google Scholar

Harris, Lawrence E., and Eitan Gurel. "Price and Volume Effects Associated

With Changes in the S&P 500 List: New Evidence for the Existence of Price Pressure." *Journal of Finance* 41 no. 4 (September 1986): 815–829.

Article Google Scholar

Henderson, Glenn V.. Jr. "Problems and Solutions in Conducting Event Studies." *Journal of Risk and Insurance* 59 no. 2 (June 1990): 282–306.

Article Google Scholar

Jacques, William E.. "The S&P 500 Membership Anomaly, or Would You Join this Club?." *Financial Analysts Journal* 44, no. 6 (November/December 1988): 73–75.

Article Google Scholar

Jain, Prem C. "The Effect on Stock Price of Inclusion in or Exclusion from the S&P 500." *Financial Analysts Journal* 43 no. 1 (January/February 1987): 58–65

Article Google Scholar

Lamoureux, Christopher G., and **James W. Wansley**. "Market Effects of Changes in the Standard and Poor's 500 Index." *Financial Review* 22 no. 1 (February 1987): 53–69.

Article Google Scholar

Polonchek, John A., and Tim Krehbiel. "Price and Volume Effects Associated with Changes in the Dow Jones Averages." *Quarterly Review of Economics and Finance*. Forthcoming, 1995.

Pruitt, Stephen W., and **K. C. John Wei**. "Institutional Ownership and Changes in the S&P 500." *Journal of Finance* 44 no. 2 (June 1989): 509–513.

Article Google Scholar

Shleifer, Andrei. "Do Demand Curves for Stocks Slope Down?." *Journal of Finance* 41 no. 3 (July 1986): 579–590.

Article Google Scholar

Standard and Poor's Corporation. *Standard and Poor's Statistical Service* New York: Standard and Poor's Corporation, 1990.

Google Scholar

Standard and Poor's Corporation. *S&P 500 1991 Directory*. Vol. 3. New York: Standard and Poor's Corporation, 1991.

Google Scholar

Woolridge, J. Randall, and **Chinmoy Ghosh**. "Institutional Trading and Security Prices: The Case of Changes in the Composition of the S&P 500 Index." *Journal of Financial Research* 9 (Spring 1986): 13–24

Google Scholar

Author information

Authors and Affiliations

Department of Economics and Finance, University of Mississippi, University, MS

A. Steven Graham (Assistant Professor)

School of Business, Queen's University, Kingston, ON

Wendy L. Pirie Ph.D. candidate

Rights and permissions

About this article

Cite this article

Graham, A.S., Pirie, W.L. Index fund rebalancing and market efficiency. *J Econ Finan* **18**, 219–229 (1994). https://doi.org/10.1007/BF02920524

Issue Date

June 1994

DOI

https://doi.org/10.1007/BF02920524

Keywords

Abnormal Return

Trading Volume

Index Stock

Price Pressure

Positive Abnormal Return

Search

Search by keyword or author

 \bigcirc

Navigation

Find a journal

Publish with us

