



EVIDENCE REGARDING A SEGMENTED STOCK MARKET*

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First published: June 1972

<https://doi.org/10.1111/j.1540-6261.1972.tb00987.x>

[†] This research was supported in part by a grant from the University of Kansas General Research Fund and made extensive use of the computer facilities at the University of Kansas. The author is indebted to Steve Forsythe, John Lewis and especially Jay Combs for data collection and computer programming assistance and acknowledges the helpful comments of the participants in the Finance Workshop at the University of Kansas, especially J. Gaumnitz, M. Joy, A. Knapper, W. A. Page, B. Porter and J. Tollefson and the participants in the Finance Workshop at the University of Iowa, especially J. Kennelley and R. Soldofsky.

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I. INTRODUCTION

FINANCIAL WRITERS discuss the New York Stock Exchange (NYSE), the American Stock Exchange (ASE), and the Over-the-Counter market (OTC) in separate terms because: (1) there is little or no overlap in the stocks in the three locations, (2) requirements for "listing" or trading among the three markets differ, and (3) there are variations in procedures for purchase and sale of stock. Little attention, however, has been given to the notion that these geographically separated markets might in fact have fundamental economic characteristics that distinguish them. Evidence that the three market segments are considered virtually synonymous is provided by the fact that the most widely quoted *stock market* indicator series (and in most cases the only indicators mentioned) are the Dow-Jones 30 Industrials, the Standard and Poor's 425 Industrials, and recently the New York Stock Exchange Index. A seldom-noted fact, and one of considerable importance, is that *all of these stock market indicators limit their samples to stocks listed on the New York Stock Exchange*. Employing one of these indicators to describe what is happening to common stock prices in general implies that either the NYSE is the only relevant segment of the stock market, or that as the NYSE goes, so goes all other segments of the stock market.

The notion that the NYSE is the only relevant segment of the market can probably be dismissed as unrealistic. While numerous investors, both individual and institutional, limit their activities to the NYSE, there are many more security issues traded OTC than on the NYSE.¹ While the NYSE is dominant in terms of the *value* of transactions, it comprises only about 50 to

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1. At the end of 1970 there were 1,840 issues listed on the NYSE according to Maurice L. Farrell (Ed.), *The Dow-Jones Investor's Handbook* (Princeton, New Jersey: Dow-Jones Books, 1971), p. 70. While it is not possible to estimate the exact number of issues traded on the over-the-counter market, the National List that includes issues approved by the National Quotations Committee of

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