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Market Reaction to Changes in the S&P SmallCap 600 Index

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Abstract

Firms added to (deleted from) the S&P 600 index experience a significant price increase (decrease) at announcement. Firms that newly enter (exit) the S&P universe experience a larger price increase (decrease) than firms that move between S&P indexes. Trading volumes are higher after the announcement and institutional ownership increases (decreases) following index additions (deletions). However, the price and volume effects are temporary and are fully reversed within 60 days, in contrast to the permanent effects reported for S&P 500 changes. Our results support the temporary price-pressure hypothesis and are similar to results reported for Russell 2000 index changes.

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