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The Official Closing Versus Last Trade Price for Nasdaq Stocks: Implications for Empirical Research and Automatic Equity Option Exercise

16 Pages
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Abstract

Mongenstern's mantra "scrutinize your data" is as relevant today as when he wrote it over a half century ago. This paper documents discrepancies across data sources in "closing" prices for Nasdaq stocks, which at times are economically meaningful. However, this discrepancy does not apply to listed stocks. Closing stock prices are used to calculate end-of-day index values, daily mutual fund net asset values, and moneyness of equity options. Whenever moneyness breaches threshold levels as established by the Options Clearing Corporation, expiring options are subject to automatic exercise. Closing price data is used by both researchers and investors, thereby potentially resulting in incorrect inferences and inefficient option exercise decisions. This paper documents a need of increased market transparency of procedures governing the determination of closing Nasdaq prices across data vendors.

Keywords: Price Discrepancies, Official Closing Price, Last Trade Price, Nasdaq Stocks, Inefficient Option Exercise Decisions, Institutional Details

JEL Classification: G13

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