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Technical Notes

Does Delisting from the S&P 500 Affect Stock Price?

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On November 30, 1983, seven stocks were dropped from the Standard & Poor's 500 index to make room for the stocks of the seven new telephone companies. This event offers an unusual opportunity to study the effects of delisting, independent of changes in investor expectations of future performance. Efficient market theory suggests that the market prices of the delisted securities should not have changed, because the delisting would have no effect on their expected future returns. However, the evidence indicates an apparently significant and long-term drop in the prices of the delisted stocks, suggesting a possible measurable negative price effect is associated with delisting from the S&P 500.

The Evidence

The break-up of AT&T, and the concurrent public offering of securities of the spin-off companies, was expected for about a year prior to the event. The exact nature of the change in the S&P 500, however, was kept confidential until the close of the New York Stock Exchange on November 30, 1983. At that time, subscribers to S&P's telephone notification service were contacted simultaneously and told of the changes in the index. Although some trading on the Pacific Stock Exchange was possible, most of the trading in these stocks occurred on December 1.

The following companies were dropped from the S&P 500:

- Continental Telecommunications (CTC),
- Centel Communications (CNT),
- Wisconsin Electric Power Company (WPC),
- El Paso Company (ELP),
- Brooklyn Union Gas Company (BU),

Figure A Daily Prices of the Delisted Stocks