The Postlisting Returns Anomaly Revisited

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This study updates and extends prior research on the postlisting anomaly, namely the finding that stocks moving from NASDAQ to a national exchange experience negative excess returns in the period after listing. The evidence shows that significantly negative postlisting abnormal returns persist in the 1982 through 1989 period for a sample of 121 NASDAQ–to–NYSE transfers. The results also show that certain prelisting characteristics (liquidity, EPS growth, and size) of firms are associated with different patterns of postlisting return behavior. That is, not all newly listed stocks have negative postlisting performance.

INTRODUCTION

The market behavior around listing on a major stock exchange has been a topic of much interest in finance for more than 50 years. Studies show abnormally positive returns before listing, especially during the interval between application and listing, but abnormally negative returns immediately afterward (Ule, 1937; Furst, 1970; Van Horne, 1970; Ying, Lewellen, Schlarbaum, and Lease, 1977; Fabozzi, 1981; Sanger and McConnell, 1986). Researchers often attribute the positive reaction to listing announcements to expectations of increased liquidity and to signaling effects. The pattern of postlisting returns is puzzling because news about listing is known widely before listing occurs. Empirical studies are inconclusive about the effects of listing on shareholder wealth. Such studies disagree whether prelisting gains offset postlisting losses.

McConnell and Sanger (1986) document the postlisting phenomenon and investigate several possible explanations. They use an average market-adjusted returns approach to study 2,482 securities that listed on the New York Stock Exchange (NYSE) from 1926 through 1982. They rule out the explanation that negative postlisting returns are due to issuance of new stock immediately after listing or insiders dumping their stock after listing. They further find that the postlisting negative returns are not due to the study period, outlier observations, the original trading locale of the newly listed stocks, the peculiarities of the exchange on which the stock becomes listed, or the correction of an overreaction that occurred on the announcement of the impending listing. McConnell and Sanger find no complete explanation for the puzzle in postlisting common stock returns.

Bhandari, Grammatikos, Makhija, and Papaioannou (1989) examine whether lower risk explains the underperformance of newly listed stocks in the postlisting period. They hypothesize that risk may change temporarily in the days after listing because of information and liquidity changes associated with a change in a stock's trading location. Their findings show, however, that riskiness is greater immediately after listing than in later periods. This evidence suggests that the postlisting anomaly is worse than once recognized

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Edelman and Baker (1990) find little support for the anomalous pattern of postlisting returns for new American Stock Exchange (AMEX) listings between 1982 and 1987. They suggest that the postlisting anomaly has almost disappeared. This finding is compatible with capital market efficiency, but runs contrary to previous empirical research.[1]

We begin by updating past research on the postlisting anomaly to see if this phenomenon persists. Theory suggests that investors can arbitrage away any predictable negative postlisting price behavior if market frictions no longer exist. Our results show that the negative and anomalous postlisting abnormal returns persist in the 1982-1989 period for a sample of 121 NASDAQ–to–NYSE listings. We examine whether an association exists between certain prelisting characteristics (liquidity, EPS growth, and size) of firms and postlisting return behavior. We find that not all newly listed stocks have negative postlisting performance.

FIRM CHARACTERISTICS, EXCHANGE LISTING, AND STOCK RETURNS

Market participants are likely to respond to news of exchange listing because of its perceived impact on the firm. There is little theoretical justification to believe listing affects all firms equally. Amihud and Mendelson (1988) suggest that the tradeoff between the cost of listing and any increase in value can produce different results among firms. Such differences may stem from the market microstructure in which securities are traded. Some describe NASDAQ as a competitive, multiple-dealership market and the NYSE as a monopolistic, specialist system.[2] Differences in market structures may affect the market's behavior of stocks with different prelisting characteristics switching from NASDAQ to the NYSE.[3]

Several recent studies examine the market behavior around exchange listing using different samples based on prelisting attributes. For example, Grammatikos and Papaioannou (1986a, 1986b) investigate whether the market reaction of firms moving from NASDAQ to the NYSE between 1975 and 1981 differ based on different levels of prelisting liquidity and earnings per share (EPS) performance (a signaling measure). Edelman and Baker (1990) and Baker and Edelman (1991a, 1991b) conduct similar studies using a sample of NASDAQ–to–AMEX transfers between 1982 and 1987. These studies show that the market reaction to listing announcements differs between firms based on liquidity and EPS performance (signaling) before listing. The empirical evidence suggests that stocks with low liquidity and low EPS performance experience the most positive reaction to news of listing because of expectations of improved liquidity and positive signaling.

[1] McConnell and Sanger (1987) report that the postlisting effect is not present in all subperiods examined.

[2] This description of the NYSE is too simplistic because specialists face competition from public limit orders and other exchanges.

[3] Reinganum (1990) notes that market microstructure matters in the pricing of stock market assets not because of institutional differences between the NYSE and NASDAQ *per se*, but because the institutional differences reflect more fundamental, underlying economic differences in the pricing of these assets.

Although not a listing study, Reinganum (1990) investigates the influence of market microstructure on liquidity premiums for NASDAQ and NYSE securities. He estimates differences in liquidity premiums for monthly stock returns from 1973 to 1988. For small firms, the average returns of NYSE securities exceed the average returns of NASDAQ securities. This return differential persists after controlling for size, risk, and liquidity-related variables. Neither the NYSE nor NASDAQ dominates the other in providing liquidity. The NASDAQ appears to have a liquidity advantage over the NYSE for small firms but not for large companies.

Overall, the empirical evidence suggests that the market is sensitive to certain prelisting characteristics of listing firms. It is not clear, however, whether firms with different prelisting characteristics perform differently during postlisting.

RESEARCH QUESTIONS AND HYPOTHESES

We investigate two research questions. First, does the postlisting anomaly persist for NASDAQ–to–NYSE transfers from 1982 through 1989? The first null hypothesis is that the cumulative abnormal returns (CARs) do not differ significantly from zero during postlisting for NASDAQ–to–NYSE transfers. Past empirical evidence suggests rejecting this hypothesis, while efficient market theory suggests accepting it. In an efficient market, returns in the postlisting period cannot be due to the market's response to news of listing because this news arrives much earlier.

Second, are different patterns of postlisting abnormal returns associated with certain prelisting characteristics? The second null hypothesis states that the CARs do not differ significantly from zero during postlisting for NASDAQ–to–NYSE transfers having different prelisting levels of liquidity, EPS growth (signaling), and firm size (market capitalization). The third null hypothesis states that the CARs do not differ significantly between the low and high liquidity groups, high and low signaling groups, and small and large firm size.

The choice of the liquidity and signaling characteristics are justified because these variables have been shown to lead to differential returns around the time of the listing application. Although researchers have not focused on the relationship between firm size and the market reaction to listing announcements, they have found that firm size can affect returns. Therefore, knowing whether these characteristics are responsible for a differential postlisting performance is consistent with the exploratory nature of this study.

In an efficient market, returns in the postlisting period cannot be due to the market's response to news of listing because this news arrives much earlier. Because news of a firm's formal listing application and approval appears in the NYSE's *Weekly Bulletin*, the market would discount the expected benefits from trading on the NYSE even before listing. Therefore, expected stock returns after listing would be normal. Still, if market expectations changed shortly after listing across stocks with different characteristics, then such a change could favor one group of stocks over another.

SAMPLE AND METHODOLOGY

The full sample contains 121 NASDAQ–to–NYSE transfers from 1982 to 1989. It excludes thinly traded securities to reduce the possible problem of biased betas due to non-

synchronous trading.[4] We use standard event-study methodology to measure abnormal returns around the listing date. The source of the daily common stock returns is the NASDAQ and NYSE files from the Center for Research in Security Prices (CRSP). Abnormal stock returns are generated by first computing daily returns for each security j using the market model:

$$(1)\quad R_{jt} = \alpha_j + \beta_j R_{mt} + E_{jt} \qquad \text{for } t = -210 \text{ to } -51,$$

where:

R_{jt} = The return for security j on day t;

R_{mt} = The return on the NASDAQ composite index on day t;

α_j, β_j = The parameters of the market model; and

E_{jt} = The unsystematic part of security j's return on day t.

Estimates of the market model parameters are derived using security j's observed daily return on day t and the NASDAQ Composite Index, R_{mt}, on day t.[5] Prices are based on the average bid and ask price during the period in which the stock traded on the NASDAQ. Returns are adjusted for cash dividends, stock dividends, and splits. Parameters of the market model are estimated using 159 trading days for each stock from day -210 through -51 before the listing date.[6] This model is used to estimate both daily pre- and postlisting abnormal returns from several test intervals around NYSE listings. The cumulative abnormal returns (CARs), estimated over different test intervals, are measured from excess returns that start on the first day of the respective test interval and end with the excess returns on the last day of that test interval.

The study examines three prelisting characteristics or attributes. The first characteristic is liquidity, measured by the average percentage bid-ask spread over the 159 day

[4] Both Brown and Warner (1985) and Peterson (1989) conclude that more complicated, alternative procedures for market model parameter estimation, such as those of Dimson (1979) and Scholes and Williams (1977), can reduce the bias in the estimated beta, but do not provide a clear-cut benefit over ordinary least squares procedures in detecting abnormal performance.

[5] We test the robustness of the event study methodology in several ways. First, we use the mean-adjusted and market-adjusted models to estimate the normal or expected common stock returns in addition to the market model. The general pattern of CARs during postlisting is similar not only for the full sample, but also for the samples partitioned by the liquidity, signaling, and size variables. These results are consistent with those of McConnell and Sanger (1986), who report that the postlisting anomaly is not due to the improper specification of an asset-pricing model. Second, we use the CRSP equally weighted index in lieu of the NASDAQ Composite Index as the market index. The postlisting results do not differ markedly based on the market index used. Overall, these results, which are available from the authors, support the robustness of the CAR findings.

[6] The period $t_{list} = -1$ to -50 is excluded from the estimation period to avoid biasing the benchmark returns. During this period the NYSE announced the formal application and approval of the sample firms for listing. Such announcements may have influenced the market expectations about these stocks and, consequently, their returns.

estimation period.[7] The bid-ask spread represents the price that market makers charge for liquidity services. A reduction in the bid-ask spread may increase the liquidity of a firm's stock, which in turn may reduce the required rate of return and increase a stock's value. The spread varies directly with the price. Thus, we divide the spread by the average of the bid and ask prices to obtain the average percentage bid-ask spread (S). The average percentage spread over the estimation period is calculated as:

$$(2)\ S = 1/159 \sum_{t=-51}^{-210} \frac{PA_t - PB_t}{(PA_t + PB_t)/2},$$

where:

PA_t = Ask price, and

PB_t = Bid price.

We use the EPS growth index, developed by Grammatikos and Papaioannou (1986b), as a proxy for signaling. This measure is the reciprocal of the coefficient of variation for the growth rate of a firm's quarterly earnings per share.

$$(3)\ \text{EPS growth index} = \frac{\bar{E}}{\sigma}$$

where

$\bar{E}$ = Mean percentage growth in EPS during quarters -12 through -5 before listing; and

σ = Standard deviation of the EPS growth.

The term E is based on eight quarters of EPS, adjusted for stock dividends and stock splits, beginning on the fifth quarter before the listing date. We dropped the four quarters immediately before listing to avoid overlapping the market model estimation period, which could introduce a bias into the benchmark returns.

The final characteristic is size, measured by the market capitalization of each firm's stock on $t_{list} = -1$. We calculate this measure by multiplying the stock's closing price on the trading day immediately before NYSE listing by the number of common shares outstanding.

[7] Grossman and Miller (1988) note that the bid-ask spread does not fully capture the notion of market liquidity. We also used two other common, but imperfect, empirical measures of market liquidity, the Amivest liquidity ratio and average daily volume, to determine how the market responds to stocks listing on the NYSE with different prelisting levels of each liquidity measure. Because these results are highly similar to those using the average percentage bid-ask spreads, we do not report them. They are available upon request.

Table 1—Prelisting Characteristics of the Sample Firms

Panel A
Average Alpha and Beta Estimates (t_{list} = -210 to -51)

	Alpha	Two-sample t-statistic	Beta	Two-sample t-statistic
Full Sample	.050		.710	
High Liquidity	.072	.35	.618	-1.62
Low Liquidity	.029		.800	
Low Signaling	.114	2.64**	.769	.63
High Signaling	-.008		.696	
Large Size	.110	2.48*	.790	1.29
Small Size	-.002		.643	
High Liquidity, Low Signaling, and Large Size	.110	2.93**	.713	-.39
Low Liquidity, High Signaling, and Small Size	-.125		.783	

Panel B
Average Characteristic Values and Correlations

		Pearson Correlation Coefficients	
Characteristic	Mean	Signaling	Size
Liquidity	3.523%	.014	-.252
Signaling	1.294		.122
Size	$63,311,413		

* Significant at the 5 percent level using a two tailed test
** Significant at the 1 percent level using a two tailed test
Liquidity = Average percentage bid-ask spread over the estimation period, t_{list} = -210 to -51
Signaling = Reciprocal of the coefficient of variation for the growth rate of a firm's quarterly earnings per share for quarters -12 through -5 before listing
Size = Log of market capitalization of the firm's common stock on t_{list} = -1

Statistical tests include t-tests to decide if the CARs differ significantly from zero and two-sample t-tests to decide if the CARs of the low and high groups on each prelisting characteristic differ significantly.[8] The full sample is split by the median of each prelisting attribute into low and high groups.[9] Low (high) liquidity stocks are those that have high (low) percentage spread while still traded on the NASDAQ. High (low) signaling stocks are those with low (high) EPS growth index in the prelisting period. Small (large) stocks are those with small (large) market capitalization on the trading day immediately before NYSE listing. The CARs are examined for the full sample and for various sub-

[8] The testing methodology follows the approach used by Baker and Edelman (1991a, 1991b).

[9] The results of the t-tests show that the subgroups differ significantly at the 1 percent level for each attribute. These results are available from the authors.

samples based on the prelisting attributes.[10] Our tests are two tailed because we do not hypothesize how the market behaves after listing for either the full sample or partitioned subsamples. We focus on the postlisting period t_{list} = 0 to +50 because it shows the longer-term cumulative effects of listing.

To better understand the characteristics of the sample firms, average alpha and beta estimates for the full sample and each subsample are calculated for liquidity, EPS growth (signaling), and size. Panel A of Table 1 shows significant differences between the alphas for the signaling, size, and combined subgroups, but no significant differences between the betas of any subgroups.[11]

Panel B of Table 1 shows the average prelisting value of each attribute and the correlation coefficients between attributes. Because liquidity is measured by percentage spread, size and liquidity are correlated negatively, as expected.[12] None of the characteristics is significantly correlated with one another at the 5 percent level.

EMPIRICAL RESULTS AND ANALYSIS

FULL SAMPLE

The first research question is whether the postlisting anomaly persists for the NASDAQ–to–NYSE transfers in the 1982 to 1989 period. Figure 1 shows that all CARs during the interval t_{list} = 0 to +50 are negative, except t_{list} = 0 and +2.[13] Although not shown, the postlisting CARs are statistically different from zero at the 5 percent level from t_{list} = +19 to +23 and at the 1 percent level from t_{list} = +24 to +50. The results are similar to the postlisting patterns reported by other previous listing studies.

Table 2 presents the CARs and t-values around various test intervals for the full sample. The CARs are negative during the three postlisting test intervals. The CARs differ significantly from zero during t_{list} = 0 to +20 and t_{list} = 0 to +50. By rejecting the first null hypothesis, this evidence supports the continued presence of the postlisting anomaly. A possible explanation of the negative returns is a market correction as argued by Ying, Lewellen, Schlarbaum, and Lease (1977). For example, if the NASDAQ and NYSE serve different clienteles, such a market correction might be due to the change in the firm's clientele when the NASDAQ firm moves to the NYSE. We do not test for such a change in clientele, however.

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[10] Although not reported, we also examine the price/earnings (P/E) effect. Neither the CARs of the low or the high P/E ratio groups are statistically significant at conventional levels during the interval t_{list} = 0 to +50.

[11] The fact that the large size sample has a slightly higher average beta than the small size sample is of little concern for two reasons. First, this difference is statistically insignificant. Second, the composition of firms in the two subgroups differs. Third, the positive relationship of size and beta is justified following the Scholes and Williams (1977) proof and evidence that high volume (thus most likely high size) firms have upwardly biased betas.

[12] At first glance the negative relationship between size and liquidity seems counterintuitive because size and liquidity typically are correlated positively. The negative sign, however, simply reflects how liquidity is measured. That is, the average percentage bid-ask spread should decrease, suggesting greater liquidity, as firm size increases. This is what happens, as shown by the negative correlation coefficient.

[13] The CARs during t_{list} = -50 to +50 are -3.712 percent but are not statistically different from zero at the 5 percent level. The CARs begin to slope upward after t_{list} = -30 , peak on the listing date at 1.545 percent, and then drift downward after listing.

Figure 1—Postlisting CARs for NASDAQ-to-NYSE Transfers, Full Sample

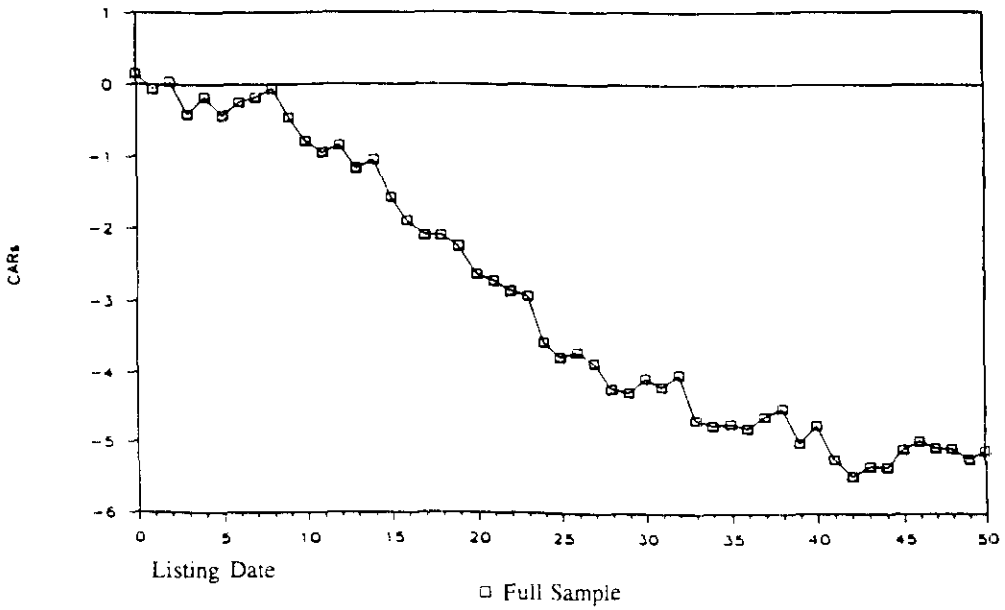


Table 2—Postlisting CARs of the NASDAQ-to-NYSE Transfers, Full Sample

Test Interval	CARs %	t-statistic	N
0 to +10	- .783	-.962	120
0 to +20	-2.630	-2.278*	120
0 to +50	-5.105	-2.662**	112

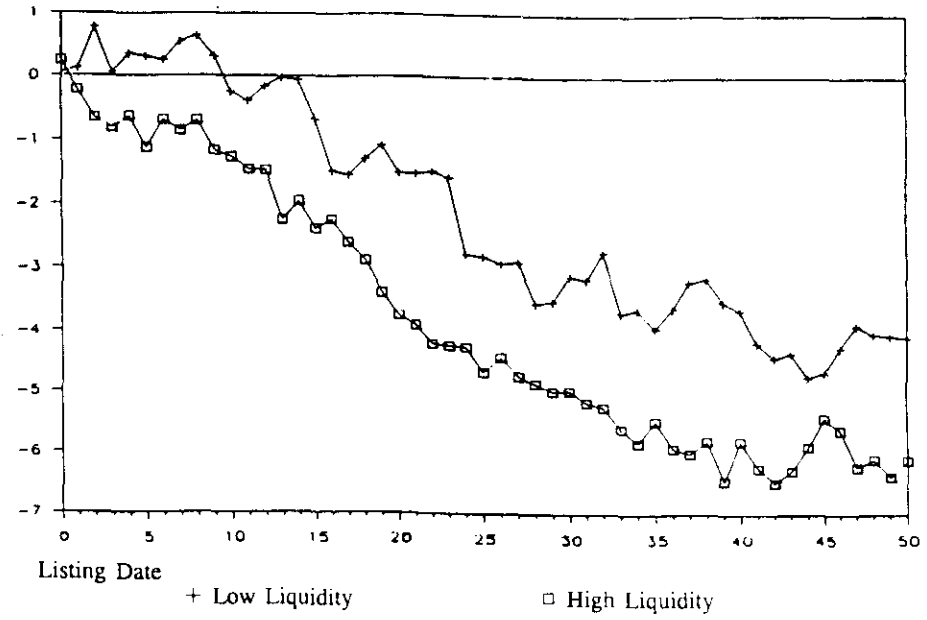
* Significant at the 5 percent level using a two tailed test
** Significant at the 1 percent level using a two tailed test

PARTITIONED SAMPLE

The second research question is whether different patterns of postlisting abnormal returns are associated with certain prelisting characteristics.[14] We partition the full sample by liquidity, signaling, and size but do not predict the postlisting pattern of CARs because of the exploratory nature of this part of the study.

[14] Because multicollinearity is not a problem, we regress the three prelisting attributes against the CARs for $t_{list} = 0$ to +50 to help sort the various effects under consideration. The coefficients of the independent variables are positive for liquidity and negative for both signaling and size, but none is significant at the 5 percent level using the t-statistic. The $F(_{3,106})$ value of .610 is also not statistically significant. Because the explanatory power of the regression model is so weak, we do not present the regression results.

Figure 2—Postlisting CARs for NASDAQ-to-NYSE Transfers, Low and High Prelisting Liquidity



LIQUIDITY

As Figure 2 shows, the postlisting CARs slope downward for both liquidity groups, but the decline is greater for the high liquidity group. As Panel A of Table 3 shows, there are no statistically significant CARs for the low liquidity (high percentage bid-ask spreads) group during the three postlisting intervals. Yet significant differences exist for the high liquidity (low percentage bid-ask spread) group during $t_{list} = 0$ to +20 and 0 to +50, which permits us to reject the second null hypothesis. This evidence suggests that the postlisting phenomenon applies only to the group with high prelisting liquidity.

The two-sample t-tests show that the CARs of the low liquidity group differ significantly from those of the high liquidity group during $t_{list} = 0$ to +10, 0 to +20 and 0 to +50. The positive sign of the t-statistic indicates that the CARs of the low liquidity group decline less severely than for the high liquidity group during the three test intervals.[15]

SIGNALING

Figure 3 reveals that the CARs of both signaling groups decline during postlisting, but the downward slope of the high signaling group is less steep than for the low signaling group. Panel B of Table 3 shows that none of the CARs of the high signaling (low EPS growth index) group is statistically significant from zero during the postlisting intervals. Yet the CARs of the low signaling (high EPS growth index) group are signifi-

[15] The two-sample t-tests in Table 3 are based on unequal variances, where appropriate.

Table 3—Postlisting CARs of the NASDAQ-to-NYSE Transfers, Partitioned Samples

	CARs %	t-statistic	N	CARs %	t-statistic	N	Two-sample t-statistic	DF
Panel A Liquidity								
	Low Liquidity (High Percentage Spread)			High Liquidity (Low Percentage Spread)				
0 to +10	-.254	-.185	61	-1.270	-1.412	59	4.815**	104
0 to +20	-1.511	-.844	61	-3.751	-2.541*	59	7.489**	115
0 to +50	-4.087	-1.361	58	-6.113	-2.559*	54	3.963**	107
Panel B Signaling								
	High Signaling (Low EPS Growth Index)			Low Signaling (High EPS Growth Index)				
0 to +10	-1.436	-1.303	61	-.007	-.005	43	-5.316**	73
0 to +20	-2.142	-1.289	63	-4.233	-2.106*	42	5.587**	76
0 to +50	-1.480	-.544	53	-10.805	-3.137**	41	14.237**	75
Panel C Size								
	Small Size (Low Capitalization)			Large Size (High Capitalization)				
0 to +10	-.480	-.387	63	-1.150	-1.088	56	3.176**	116
0 to +20	-3.199	-1.790	58	-2.116	-1.437	61	-3.600**	112
0 to +50	-2.199	-.766	55	-8.554	-3.355**	56	12.291**	107
Panel D Combined								
	Low Liquidity, High Signaling, & Small Size			High Liquidity, Low Signaling, & Large Size				
0 to +10	1.039	.393	20	-2.084	-1.191	17	4.288**	33
0 to +20	1.928	.522	19	-4.452	-2.065	18	6.458**	29
0 to +50	6.701	1.118	19	-5.362	-1.462	20	7.533**	30

* Significant at the 5 percent level using a two-tailed test
** Significant at the 1 percent level using a two-tailed test

cantly negative for t_{list} = 0 to +20 and 0 to +50. These latter results permit rejection of the second null hypothesis and suggest that the postlisting anomaly applies only to stocks with low signaling.

The two-sample t-statistics between the high and low signaling groups produce mixed results. Although the results are statistically significant for the three intervals tested, the sign of the t-statistic differs between t_{list} = 0 to +10 and t_{list} = 0 to +20 and 0 to +50. Thus, the CARs of the high signaling group exceed those of the low signaling group during the shortest interval.

SIZE

Figure 4 shows a greater decline in the CARs of the large stocks than their small stock counterparts from t_{list} = 0 to +50. As Panel C of Table 3 shows, the CARs during

Figure 3—Postlisting CARs for NASDAQ-to-NYSE Transfers, Low and High Prelisting Signaling

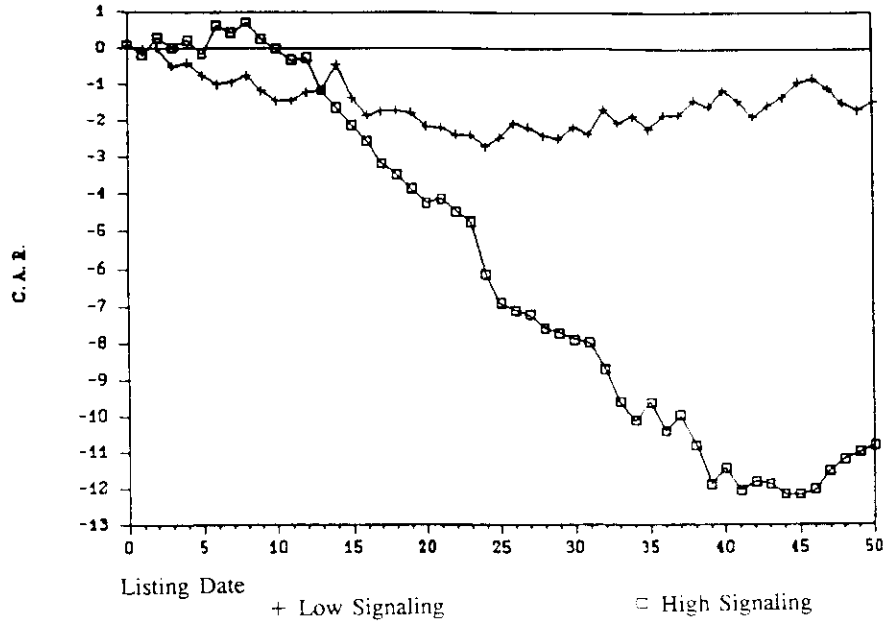
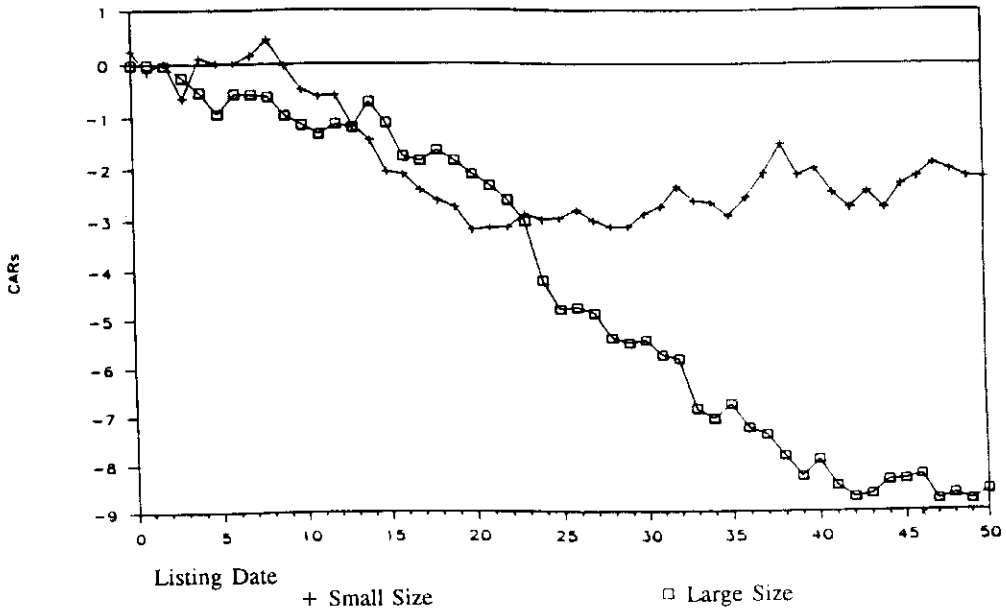


Figure 4—Postlisting CARs for NASDAQ-to-NYSE Transfers, Small and Large Prelisting Size



postlisting are abnormally negative only for the high capitalization group for $t_{list} = 0$ to +50. Again, these results lead to rejection of the second null hypothesis, but only for the longest interval.

The two-sample t-tests show significant, but mixed results between the two size groups during the three postlisting intervals. For the intervals $t_{list} = 0$ to +10 and 0 to +50, the CARs of the firms with low capitalization are significantly greater than those of the firms with high capitalization. The opposite results occur during the interval $t_{list} = 0$ to +20.

COMBINED LIQUIDITY, SIGNALING, AND SIZE

The preceding evidence suggests that the patterns of postlisting abnormal returns differ for firms with different levels of prelisting liquidity, signaling, and size. Although all groups have negative abnormal returns during postlisting, the returns are significantly negative during $t_{list} = 0$ to +50 only for stocks with high liquidity, low signaling, and large size.

Another issue involves the postlisting behavior of stocks with different combinations of the three prelisting characteristics. The two most interesting groups are those stocks with prelisting attributes of low liquidity, high signaling, and small size before listing (combined group 1) and those with high liquidity, low signaling, and large size (combined group 2). Of the full sample of 121 stocks, 20 stocks fall into each of these two combined groups.

Figure 5 shows that the pattern of CARs of combined groups 1 and 2 move in opposite directions over the interval $t_{list} = 0$ to +50. For stocks in the combined group 1, the CARs are positive, except on $t_{list} = 0$ to +3, and slope upward. In contrast, the CARs of the combined group 2 are all negative, except $t_{list} = +6$, and slope downward.

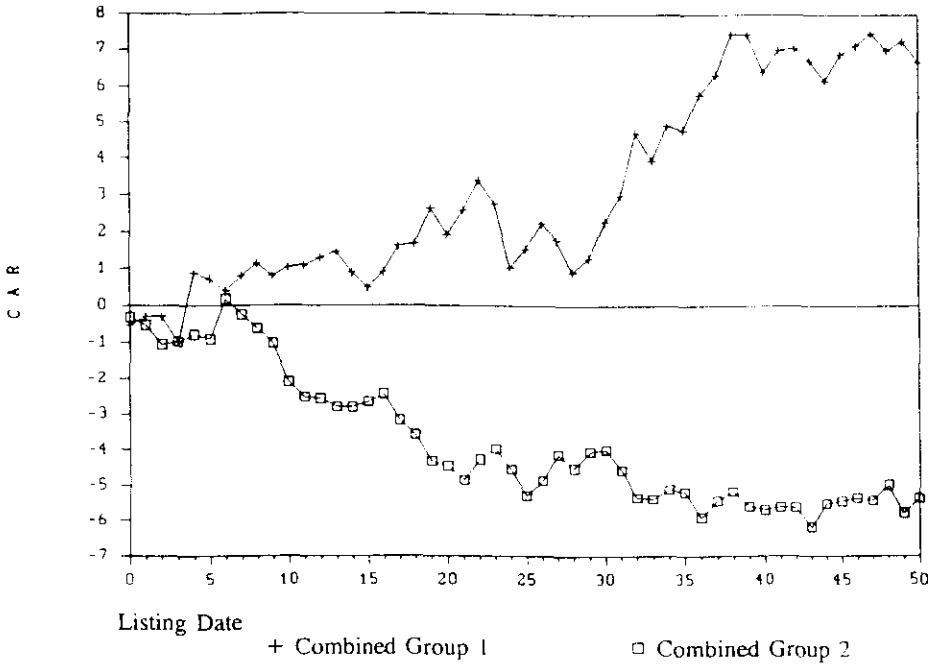
Panel D of Table 3 shows that by the end of $t_{list} = 0$ to +50 the CARs of the combined group 1 are +6.701 percent versus -5.362 percent for the combined group 2. None of the t-values for either combined group is statistically significant at the 5 percent level during the three postlisting test intervals. Yet the two-sample t-tests show highly significant differences between the two groups during all three test intervals. That is, the CARs of the combined group 1 are much larger than those of the combined group 2.

SUMMARY AND CONCLUSIONS

The study explores some additional plausible reasons for the postlisting phenomenon and produces some mixed results. We can summarize three main findings from our tests. First, negative and anomalous postlisting returns persist in the 1982 to 1989 period for the sample of 121 NASDAQ–to–NYSE listings. The CARs generally increase with the length of the postlisting period.

Second, certain prelisting characteristics of firms are associated with different patterns of postlisting return behavior. Previous researchers have found that liquidity and signaling relate differently to prelisting excess returns. This study shows that the same characteristics seem to be associated with differential postlisting return behavior patterns. Specifically, the CARs over the period $t_{list} = 0$ to +50 are statistically significant only for stocks with prelisting characteristics of high liquidity, low signaling, and large size.

Figure 5—Postlisting CARs for NASDAQ–to–NYSE Transfers, Combined Group 1 (Low Liquidity, High Signaling, and Small Size) and Combined Group 2 (High Liquidity, Low Signaling, and Large Size



Although CARs of firms with the opposite characteristics are consistently less positive during this period, mixed results occur during shorter periods. The mixed results of the two-sample t-tests suggest that these findings are at best descriptive of some relationships.

Third, comparing low liquidity, high signaling, and small-sized stocks with those having the opposite characteristics shows that the former group generally displays positive CARs while the latter group has negative CARs after listing. These results are based, however, on small samples of about 20 firms each.

Although this set of characteristics seems to predict average postlisting stock price performance, the underlying rationale for these results is still puzzling. If the market perceives that some characteristics result in better return behavior after listing, then the prelisting returns should reflect such beliefs. A plausible explanation of the differential postlisting returns across stocks with different characteristics is a possible adjustment of market expectations shortly after listing that favored one group of stocks over another. A market adjustment might occur if stocks with low liquidity, high signaling, and small size experience greater visibility and market interest after listing on the NYSE than initially expected. Such unexpected attention could stimulate demand and create additional upward price pressure on such stocks.

Taken as a whole, our results suggest that the postlisting anomaly does not apply to all firms. The fact that this anomaly does not exist in all samples suggests that it may be attribute specific. Although this study provides further evidence about the postlisting

anomaly, it leads to several perplexing questions. For example, why would managers of high liquidity, low signaling, and large-sized firms choose to list because the CARs are sharply negative for this group? Why did these firms not list earlier when presumably doing so would have been more beneficial? Managers apparently are either unaware of these relationships or have other motives either for listing or postponing listing. Offering definitive answers to these questions requires studying management behavior, which is beyond the scope of this study. Further research is needed to explain more fully why the market behaves as it does toward stocks with different prelisting attributes after listing on a national exchange.

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