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Informational Content of Open-to-Close Stock Returns

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[full text (PDF)]

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In the present study, I explore interday correlations between open-to-close and opening stock returns. Employing intraday price data on all the stocks that were S&P 500 Index constituents during the period from 1993 to 2013, I find that stock returns in opening trading sessions systematically tend to be higher following days with relatively low (either negative, or lower than the same day's market) open-to-close returns. Moreover, I explicitly document the tendency of opening stock returns to be reversed (to change their sign) following previous day's open-to-close returns. This kind of price behaviour seems to contradict stock market efficiency, and may be potentially interpreted as stock price 'corrections' following their 'deviations' from the underlying values caused by noise trading during the continuous trading sessions. Based on this finding, for the sampling period, I construct two different daily-adjusted investment portfolios based on the opening trading sessions and involving a long position in the stocks on the days when their opening returns are expected to be high and a short position in the stocks on the days when their opening returns are expected to be low. Both portfolios are found to yield significantly positive returns, even after accounting for trading commissions, providing an evidence for practical applicability of the documented pattern in opening stock prices.

Keywords: Open-to-Close Returns, Opening Returns, Stock Price Reversals

JEL Classification: G11, G14, G19

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