Investor Behavior at the 52 Week High

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**MOTIVATION**

The 52 Week High (52WH) Price has been found to be a:

1. Reliable return predictability factor (George and Hwang, 2004; Bhuvstra and Hur, 2013)
2. Volume spiking event (Huddart, Lang and Yetman, 2009)
3. Barrier for information integration (Birru, 2013)
4. Upper bound for skewness predictions (Blau et al., 2018)
5. Reference point for M&A activity (Baker, Pan and Wurgler, 2012)

Despite the frequency of research the underlying cause of the 52WH is not well known.

**INTRODUCTION**

- In the study we explain the source of the volume and returns as household investors anchoring limit order sells to the 52 week high day.
- We explore the trading between households and institutions. This household 52WH effect is the combination of disposition effect (selling of winners) and anchoring to the high price.
- We observe households using limit order sells before and at the 52WH price, resulting in strong post-event abnormal returns. The anchor of the 52WH becomes more salient with both uncertainty and newness.
- The household behavior drives returns at the 5, 30 and 60 day level. If we control for high household limit order selling the 52 week high no longer explains post event returns.

**RESEARCH QUESTIONS**

1. Who is responsible for the observed trading volume at the 52 Week High?
2. What factors contribute/intensify this trading behavior?
3. How does this individual trading contribute to the post 52 Week High returns?

**DATA & KEY METRICS**

Trades are directly from the Helsinki NASDAQ OMXH. The data set contains trader and counter-party class identification (Household, Institution, other), time, quantity and direction of trade. Trade type obtained (market or limit order) using Lee and Ready (1991) algorithm.

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\text{52 Week High Ratio} = \frac{\text{Price}}{\text{Highest Price over prior year}}
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\[
\text{Household Trade Imbalance}^* = \frac{\text{Household Net Buys}}{\text{Household Total Trades}}
\]

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\text{Household Taking Rate}^* = \frac{\text{Household Market Order Sells}}{\text{Household Total Sells}}
\]

*All trades are between households and institutions

**RESULTS**

- We find that household investors undertake disposition effect and anchoring behavior around the 52WH price.
- They do so with latent limit order selling, which is intensified if the 52WH becomes more salient, either with newness or volatility.
- This anchoring behavior is not costless, as we show that there is strong post-event return continuation at the 5, 30 and 60 day time horizons - consistent with momentum-style returns.
- We show that through this bias households provide liquidity for institutions to open up momentum positions and generate post 52WH event returns.
- The underlying cause of the 52WH post event drift is household limit order sells placed at the 52 week high.
- When controlling for high household limit order selling, the 52WH itself no longer explains future returns.
- Follow on paper explores liquidity provision and price impact at 52WH.

**CONCLUSIONS**

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