

Stock Price Comovement of ADRs

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We study stock price comovement of ADRs and find stock prices of ADRs comove more with the U.S. market than do stock prices of U.S. firms. This finding sounds puzzling. ADRs are foreign firms and their stock prices are expected to have a lower correlation with the U.S. market than stock prices of U.S. firms. Our explanation is that stock prices of ADRs are not very efficient and a lot of firm specific information is not captured by stock prices. Thus stock prices seem to comove more with the U.S. stock market. We do find that analyst coverage reduces stock price comovement for ADRs while it increases stock price comovement for U.S firms, implying that analysts process relatively more market-level information for U.S firms and more firm-specific information for ADRs. This result supports our hypothesis that there is a lot of firm specific information about ADRs for analysts to process.

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