

# News, Trading, and Stock Return Volatility

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## ABSTRACT

Existing literature finds that equity return variances over trading periods substantially exceed those over nontrading periods and suggests three potential explanations for the effect: (1) more public information reaches the marketplace during normal business hours; (2) the trading activity of informed investors reveals their private information inducing greater return variance; (3) the process of trading itself introduces noise into stock prices and returns as investors overreact to each other's trades. I offer the first direct test of the public information, private information, and noise hypotheses utilizing data on order flow in the after-hours, pre-market, and regular trading sessions along with a unique extensive dataset of the contemporaneous public information flow for a large sample of Nasdaq securities. Consistent with the findings of prior literature, I show evidence in favor of the private information hypothesis. Contrary to the existing studies, however, my results also support the public information hypothesis.

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