

**Supplementary Material and Data for
“Catering Through Nominal Share Prices”**

Malcolm Baker, Robin Greenwood, and Jeffrey Wurgler
October 1, 2008

Table A1. Data table: Raw Market-to-Book Data. The market-to-book ratio is the ratio of the market value of the firm to its book value. Market value is equal to market equity at calendar year end plus book debt. Book equity is defined as stockholders' equity minus preferred stock plus deferred taxes and investment tax credits and post retirement assets. All NYSE stocks with share codes of 10 or 11 are ranked each year by share price and market capitalization at the end of December. Low price i.e. cheap stocks (high price i.e. expensive) are stocks with share prices below the 30th NYSE percentile (above the 70th percentile) by share price. Small (large) stocks are stocks with market capitalizations below the 30th NYSE percentile (above the 70th percentile) by capitalization.

Year	<i>Low Price Premium</i>				<i>Small Stock Premium</i>			
	Cheap MB		Expensive MB		Small Cap MB		Large Cap MB	
	VW	EW	VW	EW	VW	EW	VW	EW
1962	0.99	1.17	1.72	1.95	0.98	1.17	1.62	2.01
1963	1.06	1.22	1.88	2.13	1.03	1.23	1.77	2.17
1964	1.08	1.29	1.96	2.09	1.09	1.31	1.87	2.18
1965	1.18	1.46	2.02	2.40	1.22	1.52	1.93	2.39
1966	1.04	1.23	1.77	2.31	1.07	1.33	1.65	2.18
1967	1.25	1.79	2.11	3.06	1.39	1.97	1.83	2.51
1968	1.53	2.14	1.98	2.94	1.62	2.29	1.81	2.45
1969	1.10	1.39	1.97	2.87	1.19	1.55	1.64	2.36
1970	1.01	1.18	1.76	2.36	1.05	1.25	1.53	2.07
1971	1.02	1.28	1.97	2.88	1.13	1.42	1.64	2.49
1972	1.04	1.26	2.07	3.05	1.12	1.42	1.79	2.73
1973	0.84	0.91	1.58	2.17	0.86	0.96	1.48	2.15
1974	0.75	0.75	1.14	1.32	0.75	0.78	1.08	1.38
1975	0.82	0.86	1.28	1.49	0.82	0.88	1.22	1.52
1976	0.92	0.98	1.31	1.48	0.90	1.01	1.26	1.47
1977	0.90	1.01	1.15	1.36	0.92	1.04	1.11	1.26
1978	0.89	1.02	1.15	1.37	0.93	1.06	1.08	1.21
1979	0.93	1.31	1.18	1.59	0.98	1.33	1.11	1.31
1980	0.95	1.73	1.31	2.04	1.06	1.78	1.22	1.64
1981	1.00	1.45	1.11	1.55	1.01	1.46	1.05	1.33
1982	1.00	1.54	1.24	1.83	1.09	1.57	1.11	1.54
1983	1.21	1.82	1.22	1.63	1.24	1.79	1.18	1.54
1984	1.10	1.53	1.14	1.43	1.12	1.51	1.11	1.42
1985	1.14	1.73	1.26	1.68	1.20	1.73	1.22	1.60
1986	1.17	1.70	1.30	1.82	1.18	1.69	1.28	1.75
1987	1.13	1.47	1.27	1.68	1.07	1.46	1.26	1.74
1988	1.16	1.58	1.25	1.66	1.13	1.59	1.25	1.66
1989	1.20	1.65	1.41	1.92	1.16	1.67	1.39	1.90
1990	1.00	1.31	1.36	1.94	1.01	1.38	1.31	1.78
1991	1.11	1.63	1.59	2.64	1.19	1.79	1.47	2.33
1992	1.17	1.83	1.63	2.44	1.31	1.93	1.54	2.23
1993	1.29	2.04	1.63	2.55	1.45	2.11	1.60	2.26
1994	1.24	1.77	1.61	2.41	1.32	1.84	1.56	2.02
1995	1.32	1.98	1.86	3.08	1.41	2.08	1.75	2.52
1996	1.37	2.01	1.97	2.94	1.46	2.09	1.85	2.52
1997	1.40	2.01	2.26	3.03	1.53	2.09	2.09	2.73
1998	1.16	1.69	2.62	3.66	1.23	1.79	2.41	3.17
1999	1.12	2.06	3.03	5.08	1.23	2.23	2.77	4.22
2000	1.08	1.57	2.35	3.87	1.03	1.62	2.16	3.31
2001	1.24	1.77	2.18	2.85	1.19	1.82	1.88	2.59
2002	1.15	1.52	1.94	2.28	1.09	1.55	1.63	2.08
2003	1.44	2.37	1.97	2.54	1.42	2.39	1.78	2.36
2004	1.56	2.45	1.98	2.57	1.57	2.50	1.74	2.40
2005	1.48	2.30	1.95	2.50	1.55	2.35	1.77	2.47

Table A2. Data table: Control variables in time-series regressions. Time series regressions in tables 3, 4, and 5 include controls for the lagged equal-weighted price, and the current average return, not including dividends. Raw data are presented below; in the regressions, these variables enter in log form. Average price is computed using all firms with share codes of 10 or 11 that are on CRSP at the end of each year. Equal-weighted return is also from CRSP, and excludes dividends.

Year	p^{EW}	r^{EW}
1962	23.76	NA
1963	25.44	0.158
1964	26.54	0.182
1965	29.48	0.356
1966	24.25	-0.064
1967	33.87	0.774
1968	36.77	0.418
1969	25.39	-0.254
1970	21.43	-0.109
1971	23.78	0.204
1972	19.37	0.056
1973	13.03	-0.356
1974	9.00	-0.261
1975	11.82	0.642
1976	14.21	0.490
1977	14.24	0.237
1978	14.39	0.265
1979	16.48	0.415
1980	17.89	0.431
1981	14.39	-0.001
1982	16.18	0.250
1983	16.61	0.372
1984	14.29	-0.114
1985	16.98	0.255
1986	15.49	0.079
1987	12.22	-0.085
1988	13.69	0.188
1989	15.40	0.118
1990	12.04	-0.216
1991	16.26	0.516
1992	15.78	0.268
1993	16.45	0.269
1994	14.59	-0.051
1995	17.39	0.302
1996	17.81	0.179
1997	20.04	0.202
1998	18.02	-0.029
1999	21.26	0.338
2000	16.20	-0.111
2001	16.97	0.221
2002	15.03	-0.109
2003	21.15	0.726
2004	23.55	0.217
2005	23.34	0.056
2006	NA	0.188

Table A3. Data Table: Returns to low-price stocks minus the returns to high price stocks. Future excess returns of low price stocks over high price stocks. Note that the 2-year holding period return is not exactly the same as the twice compounded one-year holding period return (and similarly for the 3-year holding period return), because the composition of the 2-year portfolios remain fixed over a two-year period. Cheap stocks are all stocks with year-end prices below that of the 30th NYSE price percentile. Expensive stocks are all stocks with year-end prices above that of the 70th NYSE price percentile. These data are used in Table 9. Below, returns are presented in percentage form.

	Value-weighted (%)			Equal-weighted (%)		
	$R_{Cheapt+1} - R_{Expt+1}$	$R_{Cheapt+2} - R_{Expt+2}$	$R_{Cheapt+3} - R_{Expt+3}$	$R_{Cheapt+1} - R_{Expt+1}$	$R_{Cheapt+2} - R_{Expt+2}$	$R_{Cheapt+3} - R_{Expt+3}$
1962	-6.26	-6.77	24.82	-4.19	-0.97	26.56
1963	-1.41	23.66	33.11	4.92	31.42	33.61
1964	25.34	29.45	97.51	23.93	27.54	133.49
1965	0.16	37.44	66.43	-3.90	62.24	136.03
1966	49.11	98.36	58.98	85.36	192.57	112.39
1967	21.04	3.60	4.20	43.00	11.92	2.20
1968	-17.41	-20.42	-27.07	-18.56	-20.70	-30.55
1969	-7.04	-7.34	-26.03	-8.07	-11.43	-22.68
1970	0.83	-19.29	-39.09	-2.69	-16.05	-30.61
1971	-19.57	-27.16	-6.47	-14.71	-20.20	-4.14
1972	-15.96	-5.15	-0.57	-13.21	0.34	0.70
1973	2.86	20.73	49.97	5.51	21.88	42.57
1974	37.47	86.44	145.02	34.96	76.33	138.36
1975	29.84	66.51	95.83	20.35	62.58	102.45
1976	24.35	41.02	74.84	26.78	49.69	78.31
1977	9.91	31.54	38.95	18.81	38.17	60.45
1978	16.31	19.93	29.83	11.88	25.93	26.28
1979	-16.19	3.10	28.08	-5.37	3.76	29.82
1980	14.74	42.19	65.67	1.46	21.23	51.27
1981	8.79	19.25	7.46	5.86	22.28	-1.05
1982	4.71	-10.49	-23.64	7.35	-16.08	-40.17
1983	-16.42	-27.90	-38.52	-23.60	-44.41	-65.16
1984	-11.66	-29.59	-40.00	-20.30	-42.79	-54.04
1985	-20.65	-30.11	-30.66	-21.43	-29.86	-38.68
1986	-14.20	-12.70	-24.82	-13.60	-19.44	-31.23
1987	7.37	-2.58	-27.13	0.32	-11.54	-24.53
1988	-14.33	-34.73	-29.67	-17.39	-28.94	-29.46
1989	-22.46	-12.63	-5.60	-16.95	-10.00	-3.04
1990	18.03	48.98	84.73	23.50	47.70	79.95
1991	20.06	46.09	44.00	21.71	49.48	47.05
1992	8.37	2.16	-7.95	13.69	8.42	7.52
1993	-7.32	-19.02	-28.62	-4.79	-5.54	-5.16
1994	-13.33	-22.95	-47.09	0.01	0.40	-14.20
1995	-5.73	-21.88	-58.23	0.00	-5.67	-37.17
1996	-14.20	-37.22	-23.70	-10.16	-25.16	-12.26
1997	-31.25	-15.16	-20.06	-16.37	13.17	-16.13
1998	12.03	16.82	23.91	20.10	-2.20	12.13
1999	15.37	41.12	47.41	2.81	28.78	37.03
2000	29.06	23.28	53.52	40.42	42.12	82.45
2001	-19.39	-3.57	-1.55	-3.33	28.26	32.65
2002	45.81	51.52	51.81	68.51	75.64	66.46
2003	1.44	-3.99	-2.83	1.28	-5.88	-3.81
2004	-6.15	-3.25	-3.74	-7.12	-6.05	-6.26
2005	6.85	6.76	6.76	3.25	3.13	3.13

Table A4. Panel regressions with interaction terms. Regressions of measures of splitting activity on the high price and large stock premia for CRSP-listed stocks 1963-2005. where s is an indicator variable equal to one if firm i splits in year t , and P^{CME} is the low price premium shown in Table 2.

$$\Pr(s_{i,t} = 1) = a + bP_{t-1}^{CME} + ep_{i,t-1} + fr_{i,t} + gNYSED_{i,t} + h\sigma_{i,t-1} \\ + jNYSED_{i,t} \times P_{t-1}^{CME} + kOwn_{i,t-1} + lOwn_{i,t-1} \times P_{t-1}^{CME} + mt + nt \times P_{t-1}^{CME} + u_{i,t}$$

Additional control variables include the NYSE market capitalization decile $NYSED$ for firm i , lagged volatility σ based on the previous year's daily returns, the log average price $p^{Industry}$ in the matched Fama and French (1997) industry, lagged institutional ownership, a time trend, the log of the post split price $p^{LastSplit}$ from the most recent split for firm i , a time trend, and interaction terms. Z-statistics use standard errors that are clustered by year. R^2 denotes the pseudo- R^2 .

Specification:	$NYSED$		Own		t		R^2	N
	P^{CME}	$NYSED$	X P^{CME}	X P^{CME}	t	X P^{CME}		
	b	g	j	k	l	m		
Dependent Variable: (Split = 1) = s								
Base	0.62	-0.40						
Case (in paper)	[3.78]	[-8.43]					0.24	212,192
Interaction	0.83	-0.38	-0.04					
with size	[4.88]	[-8.21]	[-3.13]				0.24	212,192
Interaction with	0.67	-0.45		-0.84	-0.35			
Ownership (1980+)	[3.26]	[-7.06]		[-2.48]	[-1.84]		0.25	131,650
Year Control	0.61	-0.40				[-0.01]		
	[3.72]	[-8.70]				[-0.75]	0.24	212,192
Year Control	1.89	-0.39				-0.02	-0.04	
Interacted with P^{CME}	[3.88]	[-9.52]				[-1.93]	[-3.17]	0.24 212,192

Table A5. The low price and small stock premia and splitting activity, subset results for firms with positive earnings. Regressions of measures of splitting activity on the low price and small stock premia.

$$s_t = a + bP_{t-1}^{CME} + cP_{t-1}^{SMB} + dA_{t-1} + u_t \text{ and } p_t = a + bP_{t-1}^{CME} + cP_{t-1}^{SMB} + dA_{t-1} + u_t$$

where s is the number of splits in year t , expressed as a percentage of the number of firms, p is the log of the average post-split price, P^{CME} and P^{SMB} are the low price and small stock premia shown in Table 2, A is the split announcement premium shown in Table 3. Both p and s are computed on the sample of firms that reported positive earnings (Compustat data item 18) in that year. Each regression has 44 observations. All right-hand-side variables have been standardized to unit variance. T-statistics use standard errors that are robust to heteroskedasticity and autocorrelation of up to three lags.

	<i>Split % s</i>					<i>Post Split Price p</i>				
VW P_{t-1}^{CME}	1.36					-0.15				
	[2.73]					[-7.00]				
EW P_{t-1}^{CME}		1.64					-0.12			
		[3.58]					[-3.18]			
VW P_{t-1}^{SMB}			1.78					-0.14		
			[3.22]					[-5.29]		
EW P_{t-1}^{SMB}				2.09					-0.10	
				[5.18]					[-2.29]	
A_{t-1}					2.01					-0.09
					[3.23]					[-3.60]
R^2	0.14	0.20	0.24	0.33	0.31	0.51	0.29	0.40	0.22	0.17

Table A6. The low price and small stock premia and post-split stock prices: Robustness checks. Regressions of price levels on the low price and small stock premia.

$$p_t = a + bP_{t-1}^{CME} + dp_{t-1}^{EW} + er_t^{EW} + u_t \text{ and } p_t = a + cP_{t-1}^{SMB} + dp_{t-1}^{EW} + er_t^{EW} + u_t$$

where p is the log of the average post-split stock price in year t , P^{CME} and P^{SMB} are the low price and small stock premia shown in Table 2. All regressions control for the log equal weighted average stock price p^{EW} in year $t-1$ and the log equal weighted return r excluding distributions at time t (not reported). All right-hand-side variables are standardized to have unit variance. T-statistics use standard errors that are robust to heteroskedasticity and autocorrelation of up to three lags.

Specification	N	Low Price Premium P^{CME}			Small Stock Premium P^{SMB}		
		b	t-stat	Adj-R ²	c	t-stat	Adj-R ²
Base Case	44	-0.12	-4.00	0.79	-0.12	-4.52	0.80
First Half	22	-0.13	-6.26	0.84	-0.13	-5.95	0.84
Second Half	22	-0.12	-6.46	0.91	-0.11	-7.45	0.92
Exclude 1998-2001	40	-0.08	-4.26	0.82	-0.08	-4.79	0.83
Exclude 1998-2005	35	-0.08	-5.41	0.83	-0.08	-6.14	0.84
Time Trend Control	44	-0.12	-6.36	0.85	-0.12	-7.55	0.87
Differences	43	-0.12	-2.08	0.25	-0.10	-1.96	0.14
Return-Based CME or SMB	44	-0.10	-3.82	0.67	-0.12	-3.90	0.72
IPO Offer Price	27	-0.08	-5.01	0.68	-0.08	-5.55	0.72
Large Firms	44	-0.10	-4.11	0.56	-0.09	-4.25	0.55
Small Firms	44	0.01	0.34	0.68	0.01	0.23	0.68
Premia based on profitable firms	44	-0.12	-3.75	0.78	-0.12	-4.83	0.81
M/B _{High}	44	0.15	6.81	0.86	0.21	8.44	0.89
M/B _{Low}		-0.04	-1.92		-0.06	-2.96	