Job Market Paper

**Stock-Specific Price Discovery From ETFs**

Conventional wisdom warns that exchange traded funds (ETFs) harm stock price discovery, either by “stealing” single-stock liquidity or forcing stock prices to co-move. Contra this belief, I develop a theoretical model and present empirical evidence which demonstrate that investors with stock-specific information trade both single stocks and ETFs. Single-stock investors can access ETF liquidity by means of this tandem trading, and stock prices can flexibly adjust to ETF price movements. Using high-resolution data on SPDR and the Sector SPDR ETFs, I exploit exchange latencies in order to show that investors place simultaneous, same-direction trades in both a stock and ETF. Consistent with my model predictions, effects are strongest when an individual stock has a large weight in the ETF and a large stock-specific informational asymmetry. I conclude that ETFs can provide single-stock price discovery.