

# Comovement After Joining an Index: Spillovers of Nonfundamental Effects

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## Abstract

This study extends the category and habitat trading models by relaxing the assumption that an asset can be in only a single category or habitat and by allowing for different types of category/habitat traders. This extension enables us to shed new light on the spillover effects of such trading patterns and helps us to better understand the mechanism through which assets comove more than their fundamentals would justify. Using recent additions of REIT industry stocks into three S&P general market indices as a natural experiment, we find that spillover effects are indeed present.

JEL classification codes: **G11, G12**

Keywords: **index trading, category/habitat models, spillover effects**

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