

# **Market Sidedness: Insights into Motives for Trade Initiation**

Asani Sarkar and Robert A. Schwartz

## **ABSTRACT**

We infer motives for trade initiation from market sidedness. We define trading as more two-sided (one-sided) if the correlation between the numbers of buyer- and seller-initiated trades increases (decreases), and assess changes in sidedness (relative to a control sample) around events that identify trade initiators. Consistent with asymmetric information, trading is more one-sided before merger news. Consistent with belief heterogeneity, trading is more two-sided before earnings and macro announcements with greater dispersions of analyst forecasts, and after news with larger announcement surprises. We examine the co-determinacy of sidedness, the bid-ask spread, volatility, the number of trades and the order imbalance.

Sarkar is from the Federal Reserve Bank of New York and Schwartz is from the Zicklin School of Business, Baruch College, CUNY. We are grateful to the editor (Rob Stambaugh) and an anonymous referee for comments. We also thank Markus Brunnermeier, Thierry Foucault, Michael Goldstein, Joel Hasbrouck, Milt Harris, Terry Hendershott, Murali Jagannathan, Charles Jones, Eugene Kandel, Kenneth Kavajecz, Bruce Lehmann, Albert Menkveld, Maureen O'Hara, Lasse Pederson, Ioanid Rosu, Krystin Ryqvist, Gideon Saar, Duane Seppi, George Sofianos, Shane Underwood, Jiang Wang, James Weston, Thomasz Wisniewski, and Avner Wolf. We thank seminar participants at the AFA 2006 meetings, the NBER Market Microstructure conference of October 2005, the Microstructure conference in Norges Bank (Oslo), the 10<sup>th</sup> Symposium on Finance, Banking and Insurance at the Universität Karlsruhe, Baruch College, the University of Delaware, Rice University, Rutgers University, SUNY Binghamton, and the Federal Reserve Bank of New York for helpful comments. The views stated here are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of New York, or the Federal Reserve System.