**Connected Stocks: Evidence from Tehran Stock Exchange**

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**Abstract.** We connect stocks by their common blockholders. We introduce a measure that captures the extent to which distribution of joint holders. A vital feature of the measure is allowing the joint ownership distributions to affect the measure. After that, We show that the degree of shared ownership that crosses a threshold forecasts return correlation, controlling for exposure to systematic return factors and other pair characteristics. We study this effect in business groups and find that being in the same business group significantly affects comovement. Further investigations explain that comovement increases when a bank is a business group's ultimate owner.

*JEL* *Classifications*:G10; G11; G23

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**Introduction**

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*A. Data and Sample*

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**III. Forecasting Comovement**

*A. Modeling Cross-Sectional Variation in Comovement*

*B. Discontinuity*

*B. Results*

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*A. Overview of Business Groups in Tehran Stock Exchange*

*B. Modeling Cross-Sectional Variation in Comovement in Business Groups*

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**VI. Conclusion**

**References**

Amihud, Y. 2002. Illiquidity and stock returns: cross-section and time-series effects. *Journal of Financial Markets* 5, 31-56.