Deviations from Put – Call Parity around a Stock’s 52-week Highs and Lows

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Abstract
This paper extends the work on stock and option price behavior by examining the deviations from put-call parity before and after the stock price hits its 52-week high or low. In the presence of limited arbitrage, deviations from put-call parity arise when the stock price deviates from its implied price in the options market. Using a sample of all stocks from 1996 to 2015 with underlying put and call options, I find that there is a significant increase in put-call parity deviations when the stock price hits its 52-week high or low. Furthermore the deviations in put-call parity predict reversals in stock returns. These results are consistent with informed investors trading in the options market relative to the stock market.