

## **Abstract**

This paper derives and tests the hypothesis that there exists a positive relationship between the amount of unrecognized goodwill a company has in relation to the book value of its equity, and the volatility of the price of its stock and the average trading volume of its shares, and that further this relationship is stronger when the source of that goodwill cannot be traced to items recognized in accounting. The hypothesis is derived from the theory of residual income valuation and the Feltham-Ohlson model of company valuation, and is tested on the accounting and market data of 92 companies listed on the New York Stock Exchange. While the results do not offer sufficient reason to reject any of the paper's hypotheses, they provide only partial support to them, and further research is required.