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IS INSIDER TRADING SUCCESSFUL? AN EXTENSIVE ANALYSIS WITH BUYING AND SELLING EVIDENCE

Abstract:

Purpose: The goal of the present study is to first, understand the market timing capabilities of a set of internal stakeholders while trading (buying and selling) stock, and second, shed some light on some of the characteristics that make them (or not) successful.

Design/methodology/approach: We use a relative transaction price approach (RTP) on 842 aggregated trades coming from insiders. These were taken from publicly disclosed information available on the Portuguese regulator. Furthermore, we use a median regression-based method to infer on our conclusions.

Findings: We find that insiders buy (sell) at a relatively lower (higher) price when compared to other traders. This shows signs of market timing capabilities. Furthermore, from the studied characteristics, neither the frequency nor gender are good predictors for performance, but the seniority in the organization can help us to understand that some insiders, mostly on the managerial level, might have an edge. Overall, we also find that insiders' trades made OTC generally overperform the ones made on the open market. At last, we find that insiders did not lose any performance during the Portuguese bailout period.

Originality/value: By using a thorough analytical approach and a never-used sample of trading data, comprising both buying and selling trades at high-frequency (daily) level, we build on the literature of insider trading as well as on the knowledge around the effects of trading on the open market vs. OTC. We also make yet another contribute towards the literature around the Portuguese bailout effect.

Keywords:

Insider trading, Opportunistic Behavior, Market Timing, Undervaluation, Insiders' characteristics; Gender performance

JEL Classification: G14, G15