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Insider Trading in Australia: Contrarianism and Future Performance

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Abstract:

This paper examines, within the Australian market, the extent to which legal insider trades are information driven, premised on a disconnect between the market's assessment of firm value, and that of more informed insiders. I address the notion that insiders, endowed with superior information about their firm, are contrarian, reflecting disagreement with the market's current perception of firm value, and also use this knowledge by trading in advance of future performance indicators not known to the market. I find that insiders, directors in particular, are contrarian traders; they buy when their firm is in the bottom tercile according to prior returns (losers), and sell if their firm is a prior winner. Further, this behaviour is exacerbated if the firm is a value (glamour) stock. Finally, I show that even after controlling for the aforementioned factors, directors engage in net buying prior to positive accounting performance changes in the subsequent and following 12 month periods.

Keywords: Insider trading, Australia, directors, future performance, contrarian

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