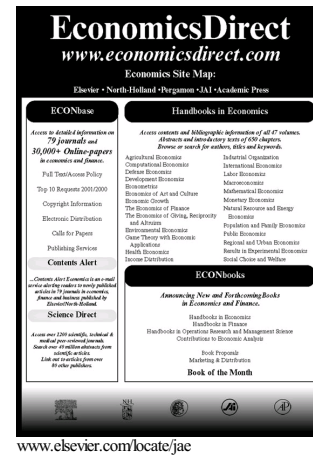


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Voluntary Disclosure and Strategic Stock Repurchases*

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Abstract

We study the choice of disclosure and share repurchase strategies of informed managers using a model that captures how they differentially impact short and long-term stock value. We identify a partial disclosure equilibrium in which firms in the lowest value region *neither* disclose *nor* repurchase, firms with intermediate values disclose but do not repurchase, and firms in the highest value region induce undervaluation by not disclosing and buy back shares. In particular, the well known unraveling result when the manager is always informed (and when disclosure is costless) — the typical upper-tailed disclosure region in classic voluntary disclosure models — need not obtain when informed managers can use repurchases to extract information rents. We offer a new perspective on open-market share repurchases — the most common form of share repurchases — when chosen optimally with disclosure. Our analysis indicates that the equilibrium disclosure region shrinks as the firm’s stock trading liquidity increases.

JEL classification : G14, G23, G32

Keywords :voluntary disclosure; repurchase ; buybacks; informed trading

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