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Institutional Shareholders and SEO Market Timing

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ABSTRACT

Pecking order and market timing theories assume that corporate financing decisions are made in the interests of existing shareholders. We find that existing institutional investors, on average, significantly increase their share ownership at the time of the SEO, including SEOs that would be classified as overpriced based on ex-ante measures of mispricing, such as pre-issue returns and market-to-book ratios. We further find that higher pre-existing institutional shareholdings lead to less SEO timing. Overall, the results question whether firms engage in equity timing to benefit existing shareholders at the expense of investors buying shares in the SEOs.

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G32

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Market timing
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