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Trading strategies of corporate insiders☆

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Abstract

We test two complementary theories of optimal trading strategies by analyzing the transaction patterns of corporate insiders. According to information-based theories, investors trade faster if they compete with others for exploiting the same information, while liquidity-based theories predict the opposite. Our analysis supports the predictions of liquidity-based models: insiders take longer to complete trades when they face competition from other insiders and they trade slower in less liquid markets. Insiders adapt to fluctuations in market liquidity. We identify informed trading using CARs, company news announcements, and insider trading patterns. Our results support the predictions of information-based models for informed trades.

JEL codes: G14, G34, G38

Keywords: Trade splitting, informed trading, block trading, insider trading, liquidity, Sarbanes-Oxley

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