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Institutional trading before dividend reduction announcements☆

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Abstract

Using a large proprietary database of transaction-level institutional trades for the 1997-2011 period, we find that institutional investors are net sellers in dividend reduction firms during the two quarters prior to the announcements. They also trade more intensively in firms that do not prepare the market for dividend cuts or that have greater information asymmetry. Trading by both pension plan sponsors and money managers affects the market's reaction to the dividend reduction announcements. Finally, all institutional investors earn significant profits by trading in the two quarters prior to the announcements, and money managers outperform pension plan sponsors.

JEL classification: G14, G29, G35

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