Essays on Insider Trading and Initial Public Offerings

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Abstract
This thesis consists of four self-standing articles on insider trading, initial public offerings and delisting of corporate firms.

The first paper in this thesis investigates whether insiders, in an asymmetric information environment, manipulate the earnings of a firm to influence investors’ perceptions of firm value in order to benefit from their trades. The main finding of this paper is a positive association between accrual-based earnings management and sell-dominated insider trading given the existence of asymmetric information. We find a leading role for information asymmetry and its interaction effect on the relationship between insider trading and discretionary accrual proxies.

The second paper examines the opportunistic trading behavior of core insiders compared with non-core ones. We document that although both core and non-core insiders are equally motivated by contrarian beliefs, their motivational difference in opportunistic trading is primarily connected to preferential and favored access to superior private information.

The third paper investigates the role underwriters play in initial public offerings on Mondays. Our evidence suggests that underwriters are reluctant to take firms public on Mondays, as they face uncertainty about pricing the IPOs due to the lack of information and a greater risk of not being able to sell stocks at the offer price, thus losing money. However, they bring IPOs on Mondays, as they are sufficiently underpriced to minimize their risks.

The fourth paper investigates the roles of institutional investors and insiders in the delisting of firms – an important corporate event. Our analysis reveals that institutional holdings have a negative effect on a firm’s probability of being delisted within five years after the IPO. We also find that insider purchases have a negative effect and insider sales have a positive effect on the probability of delisting. Our result further shows that the probability of delisting decreases if firms’ insiders increase their holdings.

Keywords: Insider trading, Discretionary accruals, Information asymmetry, Opportunistic trades, Contrarian beliefs, Superior information, Monday IPOs, Underwriters, Institutional holdings, Delisting, Distance to default.

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Essays on Insider Trading and Initial Public Offerings

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To my family
Sammanfattning

Denna avhandling består av fyra självständiga artiklar om insiderhandel, inledande offentliga erbjudanden och avnotering av företag.

Den första artikel i undersökningen undersöker om insiders, i en asymmetrisk informationsmiljö, manipulerar företagets resultat för att påverka investerarnas uppfattningar av företagets värde för att dra nytta av deras handel. Huvudfuntet i detta dokument är en positiv koppling mellan periodiserad resultathantering och försäljningsdominerad insiderhandel med tanke på förekomsten av asymmetrisk information. Vi finner en ledande roll för informationsasymmetri och dess interaktionseffekt på förhållandet mellan insiderhandel och diskretionära periodiseringssproxies.

Den andra artikel undersöker det opportunistiska handelsbeteendet hos kärn insider jämfört med icke-kärnan insider. Vi dokumenterar att även om både kärn- och icke-kärninsider är lika motiverade av kontrariska övertygelser, är deras motiverande skillnad i opportunistic handel i första hand kopplad till förmånlig och gynnad tillgång till överlägsen privat information.

Den tredje artikel undersöker rollen som garanter spelar i första offentliga erbjudanden på måndagar. Våra undersökningar tyder på att garanter är ovilliga att ta företagen offentligt på måndagar eftersom de står inför osäkerhet om att prissätta IPO: erna på grund av brist på information och större risk att inte kunna sälja aktier till anbudspriset och därigenom förlora pengar. De tar dock IPO på måndagar, eftersom de är tillräckligt undervärda för att minimera riskerna.


Nyckelord: Insiderhandel; Diskretionära periodiseringar; Informationsasymmetri; Opportunistiska handel; Kontrariska övertygelser; Överlägsen information; Måndag IPOs; Garanter; Institutionella innehav; Avnotering; Avstånd till standard
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When I was in school I learned two common proverbs: ‘life is not a bed of roses’ and ‘a friend in need is a friend indeed’. I have seen the reflections of these two proverbs throughout my life. Like others, I have faced many difficulties and had to struggle in different stages of my life. At the same time, I am lucky to get real friends who have been by my side always to overcome those difficulties. They helped, inspired, encouraged and motivated me and solved my problems in many cases. In this section, I am showing my heartiest gratitude to them. Without them, I would not be able to come to this stage.

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Abu Zakir Md Rasel Chowdhury
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**Paper II: In Search of Opportunistic Trades of Insiders**  1

Abstract  1

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Introduction

This thesis discusses different topics in Finance. It consists of four self-standing articles on insider trading, initial public offerings and delisting of corporate firms.

The trading behavior of corporate executives, one of the most scrutinized activities in the stock market, remains a key concern for regulators despite decades of enforcement and innovation to prevent it. Meanwhile, insider trading has given rise to a resurgence of widespread interest in the research and empirical literature. Managers, board of directors and other executives are a unique class of traders who have easy access to sensitive information compared to outsiders. Although they communicate this private information to outsiders, insiders mainly use their superior information to trade in order to earn abnormal returns. Part of this thesis examines whether insiders manipulate earnings in an asymmetric information environment and whether their opportunistic trades are driven by contrarian beliefs/investor sentiment or superior information about firms’ future earnings in order to earn abnormal returns.

Initial public offerings (IPOs), selling a company’s stock to the public for the first time, is also a widely studied topic in Finance. Various aspects of IPOs are investigated in the literature, for example, why firms go public, when they go public, selecting underwriters who are responsible for bringing the issue public, underpricing etc. Part of this thesis discusses the days of the week effect on IPOs, specifically investigating why there are fewer IPOs on Mondays compared to the other days of the week.

Corporate failures and delisting are not uncommon in the business world. Fama and French (2004) suggest a dramatic decline in the survival rates of IPO firms. The judgment of failure risk and a firm’s likelihood of survival are important to many constituents such as the firm’s executives, board members, auditors, institutional investors and retail investors of course. From an investor’s perspective, one important factor to consider is that distressed stocks have low returns or underperform. However, some investors still hold onto these distressed stocks. This thesis investigates the roles of institutional investors and insiders in a firm’s probability of being delisted within five years after the IPO.
The first paper in this thesis investigates whether insiders, in an asymmetric information environment, manipulate the earnings of a firm to influence investors’ perceptions of firm value in order to benefit from their trades. We extend this investigation and check the possible link between routine and opportunistic buy and sell trades with the absolute value of discretionary accruals. These are also examined after controlling for value and growth stocks and other control variables.

We provide evidence of a positive and significant relationship between discretionary accruals and insider trading. This association indicates that earnings management is directly linked to insider trading. Our information asymmetry proxy (Bid-Ask spread) and its interaction term with insider trading proxies also show significant and positive relations with discretionary accruals, which indicates an incremental effect of asymmetric information on the insider trading and earnings management relationship. Therefore, unlike the previous insider trading literature, we contribute by showing a three-way interaction between insider trading, discretionary accruals and information asymmetry, i.e. greater information asymmetry leads to more insider trading, which results in higher discretionary accruals. Again, at the individual level, we find that CEOs, CFOs, vice presidents and directors are more active in insider trading. We also provide evidence of a difference between high and low-growth firms in their relation with discretionary accruals, which shows that growth firms (low book-to-market) are more aligned with increased discretionary accruals than value firms (high book-to-market). Further evidence also suggests managing and manipulating earnings for insiders’ opportunistic trading over routine trading.

The second paper investigates the opportunistic trading behavior of core insiders (CEOs, CFOs and COOs) compared with non-core ones (Presidents, Vice Presidents, Chairman of the Board, Directors and Officers). Specifically, we examine whether opportunistic trades of the corporate insiders are driven by contrarian beliefs/investor sentiment or superior information about firms’ future earnings, or both, in order to earn abnormal returns.

We document that although both core and non-core insiders are equally motivated by contrarian beliefs, their motivational difference in opportunistic trading is primarily connected to preferential and favored access to superior private information. In addition, the effects of information asymmetry and the Global Financial Crisis (GFC) are evident in their opportunistic trades. We also find that both opportunistic buy and sale trades are associated with higher abnormal returns, which are closely related to both contrarian beliefs and superior information.
about firms’ future earnings. Our results have important implications for opportunistic insider trading in the US.

The third paper investigates the role of underwriters in the initial public offerings that are issued on Mondays. The Monday effect on stocks has been widely studied in the literature (Cross 1973; French 1980; Gibbons and Hess 1981). On the other hand, numerous studies document IPO timing and volume over time (for example, Choe, Masulis and Nanda 1993; Lowry and Schwert 2002; Lowry 2003; Gao, Ritter and Zhu 2013; Dambra, Field and Gustafson 2015). However, these studies do not focus on whether IPO timing and volume are affected by the days of the week. Although Jones and Ligon (2009) find evidence that fewer IPOs are issued on Mondays, they do not explain the main reasons why firms avoid going public on this day. In this paper, we provide new evidence that it is actually underwriters who are disinclined to take firms public on Mondays. Our evidence suggests that underwriters are reluctant to take firms public on Mondays because they face uncertainty about pricing the IPOs due to the lack of information and a greater risk of not being able to sell stocks at the offer price, thus losing money. However, they bring IPOs on Mondays, as they are sufficiently underpriced to minimize the risks.

The fourth paper investigates the roles institutional investors and insiders play in the delisting of firms – an important corporate event. Campbell, Hilscher and Szilagyi (2008), and Chava and Jarrow (2004) identify the roles of accounting and market information in predicting bankruptcy. Demers and Joos (2007) suggest that firm-specific accounting information is associated with firm failure. However, this accounting and market information alone does not explain the failure or delisting of firms. In this paper, we provide new evidence that institutional investors and insiders have roles to play in the delisting or failure of firms.

Our analysis reveals that institutional holdings have a negative effect on a firm’s probability of being delisted within five years after the IPO. Our results are robust across different sets of models such as fixed effects, the instrumental variables approach, distance to default, and dynamic logit and hazard models. We further show that institutional holdings have a positive effect on the stock price, which is negatively related to the probability of default/delisting. Our results are consistent for different samples: a matched sample based on propensity score matching, a sample excluding mergers as a reason for delisting and a sample comprising every delisted firm. Using different measures of insider trading, we also investigate whether insider trading affects the probability of a firm being delisted. We find that insider purchases have a negative effect and insider sales have a positive effect on the probability of
delisting. We also find that the probability of delisting decreases if insiders increase their holdings.

Summary of this Thesis

This thesis consists of four self-standing articles on insider trading, initial public offerings (IPOs) and delisting of corporate firms. The first paper investigates whether insiders, in an asymmetric information environment, manipulate the earnings of a firm to influence investors’ perceptions of firm value in order to benefit from their trades. The second paper examines the opportunistic trading behavior of core insiders (CEOs, CFOs and COOs) compared with non-core ones (Presidents, Vice Presidents, Chairman of the Board, Directors and Officers). The third paper investigates the role of underwriters in the initial public offerings that are issued on Mondays. The fourth paper investigates the roles of institutional investors and insiders in the delisting of firms – an important corporate event.

Paper I

A growing body of the literature examines the relation between insider trading and earnings management (Udpa 1996; Cheng et al. 2005; Core, Guay, Richardsons and Verdi 2006; Sawicki and Shrestha 2008, 2012). This paper complements and extends this literature, as well as providing some new insights into the insider trading and earnings management relationship from different aspects. Applying the Generalised Method of Moments (GMM) approach, this paper is clearly distinguished from previous studies, including Sawicki and Shrestha (2008), and Core et al. (2006), through the introduction of the cumulative abnormal returns (CARs) insiders earn from managing earnings, alternative models of the absolute value of discretionary accruals and the moderating effect of information asymmetry on the relationship between insider trading and discretionary accruals. It also provides insights into the routine and opportunistic trading behavior of insiders, insider trading in growth and value firms, the trading
behavior of each major corporate insider, and the impact of corporate governance variables, among others.

The main finding of this paper is a significantly positive relationship between accrual-based earnings management (i.e. discretionary accruals) and sell-dominated insider trading given the existence of asymmetric information. We find a leading role for information asymmetry and its interaction effect on the relationship between insider trading and discretionary accrual proxies. In addition, we provide evidence of the difference between growth (low book-to-market value) and value (high book-to-market value) firms in their relationship with discretionary accruals, which indicates that insiders in growth firms are more associated with increased discretionary accruals and trading than value firms. We also examine each of the major insiders’ trading behavior relating to the manipulation of earnings and find more active involvement by some major insiders than others. We further report differences between routine and opportunistic buy and sale trades in the sense that opportunistic trades are more aligned with earnings management than routine trades in an information asymmetric environment, suggesting that insiders take advantage of their superior knowledge and the pricing errors/mispricing made by outsiders, accordingly trading against current investor sentiment/contrarian beliefs.

This paper contributes to the literature in several ways. Our first and primary contribution in this paper is to show a relationship between the outcome of insider trading and discretionary accruals. As CAR reflects the trading performance of insiders’ stocks, we use CAR as an ‘outcome’ of insider trading activities, capturing the volumes of both the buy and sale transactions of insiders at the specified prices of the transaction dates. While we complement the literature by using existing insider trading proxies (e.g. NPR and IPR), in particular we focus on CAR to show the performance of insiders when managing the earnings of firms. To the best of our knowledge, no previous research has examined the relationship between the abnormal returns from insider trading (CAR) and discretionary accruals. We suggest that insiders manipulate earnings to profit from their trades, thus suggesting insider trading pre-empts discretionary accruals. Insiders manage earnings to influence investors’ perceptions of firm value so they can benefit from this favorable effect, thus earning abnormal returns.

Second, the literature considers information asymmetry theoretically, but does not control for it in the empirical literature. We argue that without controlling for information asymmetry, the evidence for this relationship might not be plausible based on the confounding effects. So, unlike the literature, we measure asymmetric information by the bid-ask spread as an
intervening control in our study. We contend that information asymmetry leads to greater discretionary accruals as well as more insider trading, therefore mediating and influencing their relationship. So, we explicitly test its effects as well as its interactions on the insider trading and earnings management relationship, i.e. the moderating effect of information asymmetry. We contribute to the body of knowledge by providing evidence that reinforces the relationship between insider trading and earnings management (i.e. discretionary accruals) in the presence of information asymmetry.

Third, we also examine the trading behavior of each major corporate insider in relation to the manipulation of earnings, in addition to all insiders as a group. We focus on eight major insiders separately, while the existing literature only focuses on CEOs and CFOs (Jiang, Petroni and Wang 2010; Shin and Wang 2011; Wang et al. 2012). Our evidence supports the fact that each insider behaves differently and some insiders are more actively involved in earnings management for their own profit than others.

Fourth, following Cohen, Malloy and Pomorski (2012), our research discovers how the opportunistic and routine trading behavior of insiders influences earnings management differently. To the best of our knowledge, this is the first study to reveal this relationship. As the motives and patterns of opportunistic and routine trading are different, it is important to understand which types of trade contribute to earnings management. We contend that opportunistic trade (buy or sell), rather than routine trade, is driven by speculation for personal gain through managing earnings and using private information. We show that manipulating earnings is more aligned with insiders’ opportunistic trading (both buy and sell) than routine trading. Our evidence suggests a significant difference between opportunistic and routine trader behavior, and that the former has a motivation for becoming involved in discretionary accruals.

Paper II

In the literature, insider trading has been attributed to both contrarian beliefs (i.e. trading against investors’ current sentiments) and superior information (i.e. private information access) about firms’ future cash flow realizations (Seyhun 1992; Rozeff and Zaman 1998; Piotroski and Roulstone 2005; Jiang and Zaman 2010). Again, insider trading is driven by many reasons such as portfolio rebalancing, liquidity and diversification purposes, or for the purpose of speculating to make a profit. The former is a routine trade that provides no information about the firm and
the latter is an opportunistic trade which signals the use of private information. Considering this, Cohen, Malloy and Pomorski (2012) separate the trading patterns of insiders into routine and opportunistic trades, and find that opportunistic insider trades are informative about a firm’s future and yield abnormal returns, while routine trades do not.

In this paper, we argue that if opportunistic trades are more informative, then corporate insiders are more likely to be opportunistic traders. Our study extends the literature by looking at the information content of trades by various insiders (e.g. Chief Executive Officers (CEOs), Chief Operating Officers (COOs), Chief Financial Officers (CFOs), Presidents, Vice Presidents, Chairman of the Board, Directors and Officers). Focusing on opportunistic insider trades (i.e. buy and sell) and two homogeneous groups of corporate insiders (i.e. core and non-core insiders), we contribute to the existing debate by examining whether both CIs and NCIs are equally or differently inspired by contrarian beliefs and/or superior information about their firms’ future earnings when they engage in opportunistic trades in securities of their companies, or CIs are more analogous/linked to use superior information of firms’ future earnings innovation in their opportunistic trading than NCIs do because of their privileged access to private and price sensitive information. We then investigate whether the abnormal returns earned from opportunistic trades are similar or significantly different between these two groups. Our study is unique and distinct from the existing literature, firstly because we distinguish opportunistic trades from the routine trades made by insiders on the basis of speculative and other purposes, respectively, and secondly, we classify all insiders into two groups: CIs and NCIs. Our CIs group includes CEOs, COOs and CFOs as the highest-ranked executive positions in an organization, comprising part of the ‘C-Suite’\(^1\), while the NCIs group includes Presidents, Vice Presidents, Chairman of the Board, Directors and Officers. We argue that the reason for this insider classification is that these insiders are exposed to distinctive/unique homogeneous groups because of their different degrees/levels of superior access to information (i.e. privileged or non-privileged) within the firms, and their use of this private information for speculative purposes to generate abnormal returns.

Our paper contributes to the insider trading literature in several ways. Our primary contribution in this paper is to show a comparison between the opportunistic trading behavior of CIs and that of NCIs, whether their trades are based on either contrarian beliefs or superior

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\(^1\) CEOs, COOs and CFOs are responsible for overseeing all activities of an entire company, managing the company's day-to-day operations and overseeing the company's financial activities, respectively. The COO is usually considered the second-in-command within the firm and is seen as the heir of the CEO in large firms. For example, Tim Cook, the COO of Apple, stepped up into Steve Job’s big shoes.
information about their firms’ future earnings performance, or both. To the best of our knowledge, no previous research has examined this comparison between two distinct homogeneous groups of corporate insiders for opportunistic trading behavior. Our study offers an in-depth understanding of the opportunistic trades of wider corporate insider groups rather than any specific insider individually. Using a sample of 65,777 trades (of which 27,315 trades are opportunistic) by CIs and NCIs during the period 2004-2012, we find that there is no fundamental difference in the trading behavior between CIs and NCIs based on the contrarian beliefs. However, we report significant differences between CIs and NCIs in their engaging in trades based on superior information about their firms’ future earnings. That is, access to superior information about future earnings motivates CIs to sell more, which is not the case for NCIs. In other words, private information helps CIs to focus on sales, given the fact that these trades are dominated by sale transactions. Again, when opportunistic trading is distinguished from the routine trading (i.e. opportunistic buys and opportunistic sells are viewed separately), we provide evidence of significant differences in the trading behavior between CIs and NCIs. Both the opportunistic buys and sales of CIs and only the opportunistic buys of NCIs are driven by the contrarian beliefs. Again, unlike NCIs, CIs are motivated by their access to superior information in order to do more trades opportunistically. This validates our conjecture that, as opposed to NCIs, CIs tend to be motivated in their opportunistic trades to generate abnormal returns because of their knowledge of superior information. These new findings are worth adding to our existing knowledge.

**Paper III**

The Monday effect on stocks has been widely studied in the literature (Cross 1973; French 1980; Gibbons and Hess 1981). On the other hand, numerous studies document IPO timing and volume over time (for example, Choe, Masulis and Nanda 1993; Lowry and Schwert 2002; Lowry 2003; Gao, Ritter and Zhu 2013; Dambra, Field and Gustafson 2015). However, these studies do not focus on whether IPO timing and volume are affected by the days of the week. Although Jones and Ligon (2009) find evidence that fewer IPOs are issued on Mondays, they do not explain the main reasons why firms avoid going public on this day. This paper provides new evidence that it is actually underwriters who are disinclined to take firms public on Mondays. This paper also shows that they bring IPOs on Mondays, as they are sufficiently underpriced to minimize their risks.
Using a comprehensive sample of 1,545 IPOs during the period 2000-2012, this paper tests the hypothesis that underwriters avoid Mondays as an issue day due to the lack of information about pricing these IPOs by investigating the availability of information associated with Monday IPOs. The number of managers is used as a proxy for the availability of information, as Corwin and Schultz (2005) find evidence that syndicate members produce useful information and issuers benefit as the number of managers increases in the syndicate. The analysis in this paper reveals that fewer underwriters are involved in IPOs that come on Mondays. The result shows that a one standard deviation increase in the number of managers in the IPO syndicate is associated with a 32.1% decrease in the probability that an effective IPO date will be on a Monday. As there are fewer underwriters in the syndicates of Monday IPOs, they face more uncertainty (due to the shortage of information) about the price the market will pay for these IPOs. For this reason, they are reluctant to bring IPOs on Mondays.

Underwriters use the market prices of comparable stocks to price IPOs. The available prices of comparable stocks are particularly out of date on Mondays. Hence, underwriters face more uncertainty about the price the market will pay for an IPO on this day and a greater risk of not being able to sell the stock at the offer price, thus losing money. Consistent with this, underwriters are only willing to proceed with an IPO on Mondays if it is sufficiently underpriced to minimize their risk. Therefore, this paper finds that IPOs on Mondays are more underpriced than IPOs on other days. The result shows that Monday IPOs are associated with 29.1% underpricing on average, which is the highest average underpricing out of all the weekdays. The higher underpricing of IPOs for Monday offer dates may reflect the lack of information that is usually used when pricing IPOs. In other words, underwriters are only interested in taking IPOs public on Mondays if they are sufficiently underpriced to minimize their risk of not being able to sell the stocks at the offer price.

**Paper IV**

The widespread interest in corporate failures has led to an extensive literature of the corporate bankruptcy prediction models (Shumway 2001; Hillegeist et al. 2004). Campbell, Hilscher and Szilagyi (2008), Chava and Jarrow (2004), and Demers and Joos (2007) identify the roles of accounting and market information in predicting bankruptcy. Previous research (for example, Aggarwal, Prabhala and Puri 2002; Binay, Gatchev and Pirinsky 2007; Chemmanur,
Hu and Huang 2010; Hanley and Wilhelm 1995) also identifies that institutional investors are allocated a large number of shares in IPO firms and that there is a link between insider trading and institutional holdings (Sias and Whidbee 2010). Considering these strands of literature, this paper examines the roles of institutional investors and insiders in the delisting or failure of firms.

The analyses in this paper reveal that institutional holdings have a significantly negative effect on a firm’s probability of being delisted within five years after the IPO. The pattern of institutional holdings between delisted and non-delisted firms starts to differ from the second quarter after the IPO, and this difference increases over the time span. Institutional holdings start to decline for delisted firms and start to rise for their non-delisted counterparts. This paper reports the results using the holdings of institutions and mutual funds in the regressions, including specifications with industry and quarter fixed effects, and finds that a one standard deviation increase in institutional holdings is associated with a 1.3% decrease in a firm’s probability of being delisted. The results are similar using other proxies of institutional and mutual fund holdings. These results indicate that if institutional investors increase their holdings in a firm, then the probability that the firm will be delisted decreases.

An important issue in interpreting the empirical results, as in most papers on empirical corporate finance, is endogeneity. To address the endogeneity issue, this paper uses the instrumental variables approach and finds that a one standard deviation increase in the instrumented institutional holdings is associated with a 1.9% decrease in a firm’s probability of being delisted. As expected, this result is more statistically and economically significant than those obtained without instrumentation. In further results, this paper uses the distance to default, which is the structural approach of Moody’s KMV (Croasbie and Bohn 2001), based on Merton (1974) model. This distance to default model produces a probability of default for each firm at any given time. Consistent with previous results, all proxies of institutional holdings have negative and significant effects on the probability of default. For example, a one standard deviation increase in institutional holdings (instrumented) decreases the probability of default by 1.5% (1.6%). The other proxies of institutional holdings show similar results, which implies that greater involvement of institutional investors reduces the probability of delisting or default.

In further robustness test, this paper uses a matched sample of the firms that are delisted within five years after the IPO and those that are not delisted, as it is plausible to argue that the characteristics of these two groups of firms may be different. The results are consistent that the institutional holdings have a negative and significant effect on the probability of default. The
results in this paper are based on using all of the CRSP delisting codes as delisting reasons. However, this paper also reports results after removing mergers as a reason for delisting from the sample of firms that are delisted within five years after the IPO as well as using a sample that consists of all the delisted firms in CRSP. The consistent results provide evidence that these results are not driven by including mergers in the sample of delisted firms.

This paper also investigates whether insider trading affects the delisting of firms. This is interesting because previous research documents the link between insider trading and institutional holdings. Sias and Whidbee (2010) suggest that insider trading is inversely related to institutional demand measured over the same quarter. This paper uses three proxies of insider trading behavior: the net purchase ratio (NPR), the net shares proportion and insider holdings, and finds that insider purchases have a negative effect and insider sales have a positive effect on a firm’s probability of delisting within five years after the IPO. These findings are of interest to retail investors who can mimic insider trades to avoid losses in case of the firms’ delisting or failure.

Concluding Remarks

This thesis contains four articles on different topics in Finance: insider trading, initial public offerings and delisting of corporate firms. Insider trading is investigated in Paper I, paper II and part of Paper IV, a topic on initial public offering is discussed in Paper III and delisting of corporate firms is examined in Paper IV.

Paper I documents that insider trading is a strong predictor of earnings management in an asymmetric information environment. Paper II suggests that although both core and non-core insiders are equally motivated by contrarian beliefs, their motivational difference in opportunistic trading is primarily connected to preferential and favored access to superior private information. The evidence in Paper III suggests that underwriters are reluctant to take firms public on Mondays, as they face uncertainty about pricing the IPOs due to the lack of information and a greater risk of not being able to sell stocks at the offer price, thus losing money. However, they bring IPOs on Mondays, as they are sufficiently underpriced to minimize their risks. Paper IV documents that institutional investors reduce the probability of a firm being delisted within five years after the IPO. Using different proxies of insider trading behavior, this
paper also finds that insider purchases have a negative effect and insider sales have a positive effect on a firm’s probability of being delisted within five years after the IPO.
References


Shin, Y.-C., and Wang, W., 2011, The Timing of insider trades around earnings announcements: Evidence from CEOs, CFOs, and COOs, *International Review of Accounting, Banking and Finance* 3(1), 1-23.


