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US chief executives hoard good news for stock sales

By Andrew Hill Author alerts

US chief executives systematically time the release of good news to get an upward "pop" in the share price before they sell their stock, according to new research.

A working paper suggests chief executives hold on to, or bring forward, press releases about positive news – such as product launches, client wins and special dividends – for months when they are allowed to sell grants of shares. They then sell shares, benefiting from the short-term rise in the price and trading volume.

The research will add to concerns, exacerbated by the financial crisis and its aftermath, that short-term incentives warp executives' behaviour.

Co-author Alex Edmans, professor of finance at London Business School and the Wharton School, likened the practice to "cookie-jar" accounting, when companies build up reserves that they release later to smooth earnings volatility.

Professor Edmans is also co-author of an earlier paper on "managerial myopia", which found US chief executives who were planning an imminent sale of their shares cut research and development, advertising and capital expenditure to meet analysts' expectations, boosting earnings and the share price.

"Boards of directors should particularly scrutinise chief executives in years or months that they have a lot of equity vesting," Prof Edmans said.

The new paper looked at announcements whose timing is in the hands of the chief executive, rather than non-discretionary releases of earnings, or other formal timetabled regulatory statements.

Prof Edmans and his co-authors – Luis Goncalves-Pinto from National University of Singapore, Insead's Yanbo Wang and Moqi Xu of London School of Economics – looked at 166,000 news releases. They adjusted for news linked to a company's annual meeting or board meetings, and for trade fairs and events that prompt predictable bursts of news.

Even so, they found that there were 2 per cent more discretionary news releases in months where chief executives' shares vested than in non-vesting months, and 5 per cent more than in the months before. The number of releases also went up in line with the value of the shares the chief executive would be able to sell.

The research does not identify particular companies because, in Prof Edmans' words, "in one particular case there might be some innocent reason [for the announcement and sale of shares], but when you look at 166,000 news releases you find something systematic".

After the corporate scandals of the early 2000s, the US Securities and Exchange Commission moved to ensure companies would release significant news simultaneously to investors, analysts and the public under its Regulation Fair Disclosure, but it would be harder for the regulator to dictate the timing of non-discretionary releases.

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