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Insider trading and stock market prices in the Greek technology sector

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Abstract

Insider trading has been a major issue for stock markets and investor protection. In order to avoid problems of information asymmetry all countries have implemented regulations, forcing insiders to provide information concerning selling or purchasing shares of their firms. In this paper we examine the effect of these corporate announcements have on stock prices of companies in the Athens Stock Exchange technology sector, by using event study analysis methodology. 14 listed firms of the technology sector has been examined and a total of 636 announcements has been analysed. We found that purchasing transactions do not affect abnormal stock returns and stock prices, while selling transactions have a positive effect prior to the announcement and negative afterwards. The existence of a weak form of market efficiency can be assumed as announcements has not affected significantly and persistently stock prices and abnormal returns.

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1. Introduction

The rise of capital markets around the world and the corporate governance issues that were raised, forced all countries to implement disclosure regulations for significant actions and decisions taken by listed firms. For stock markets to operate efficiently investors must be able to have access to all available financial information related to

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firms and markets so that they will be able to take rational decisions concerning their investments. In his seminal work Fama (1970) defined a market to be “informationally efficient” if prices at each moment incorporate all available information about future values. Disclosure of information for insiders’ actions who have access to critical information and competences (Trivellas and Reklitis , 2014) is therefore of utmost importance, for the protection of shareholders and investors (Lazaridis et al, 2008), and is legally mandatory in almost every country of the world.

A significant trend in research concerns the way that markets and investors react upon the announcement of a corporate related event, such as mergers and acquisitions (Drympetas and Kyriazopoulos, 2014), earning announcements, corporate deals etc.), therefore affecting the stock prices of the firm. An important category of events is the announcement by a firm of the buying or selling shares by insiders, as they have access to privilege information concerning the firm, and her financial and operational performance. The question we have to ask however is whether the announcement of financial transactions of insiders affects the stock price of their firm.

Insider trading has been an important issue for academics, practitioners and regulators around the world, as it is a clear example of how asymmetric information may result to the loss of shareholder wealth. Despite the fact that there is enough evidence for the US and the UK stock market (anglo-saxon corporate governance systems) only recently this issue has drawn research attention for other countries (Leledakis et al. 2010), and especially countries that fall in the continental system of corporate governance.

In this paper the effect that financial transactions of insiders of listed firms in the Greek Technology sector (and most specifically for the hardware and software firms) of the Athens Stock Exchange Market (ATHEX), in the share prices of the firms are examined. In order to achieve that goal an event study is conducted for 636 announcements of insider trading of 14 software and hardware firms listed in ATHEX during the period 2007-2013. The aim of this paper is to explore the relationship between announcement of insider trading and the existence of a strong or semi strong form of market efficiency in the sector. In order to achieve this goal abnormal returns are calculated using the event study methodology, and the statistical importance is evaluated with the use of both parametrical and non parametrical statistical tests of cumulative abnormal returns in order to find support for the efficient market hypothesis.

The rest of the paper is structured as follows. Section 2 presents the technology sector in ATHEX, and insider trading disclosure regulation in Greece. Section 3 reviews the relevant literature on insider trading and the effect it has on stock prices. Section 4 describes the data and the event study methodology used in this paper. In section 5 the results are presented and discussed and finally section 6 concludes the paper and offer suggestion for further research.

2. The Technology sector in the ATHEX and insider trading information regulation in Greece.

The technology firms in Athens Stock Exchange market included corporations operating in Telecommunications, Hardware and Software, and Internet services. The sector had 24 firms listed in 2007, a number that dropped to 20 in 2013, where 5 of them are in surveillance status and 2 of them are under deletion status. For the period examined 14 software and hardware firms were listed in the main market of ATHEX

The technology sector was severely affected by the financial crisis that loomed Greece since 2009, along with the rest of the ATHEX market, losing almost 80% of its value, as it can be seen in Figure 1. The turnover of the market sector both in terms of volume and number of transactions, also plummeted.

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