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## Review of Corporate Finance Studies

# Paper Spotlight: Corporate Transactions in Hard-to-Value Stocks

January 31, 2022



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Existing evidence shows a significant cross-sectional heterogeneity in firms' informational environment. Smaller firms may not have any research analysts following them, thus operating in a more informationally opaque environment and, as a result, asymmetric information may allow firm insiders to profit from their superior information. But insiders may also trade not so much for profit-related reasons but to correct mispricing of the shares of the firm. What motivates insiders' corporate transactions? These insiders' corporate transactions also have wider implications: returns have been found to be predictable following corporate transactions but the source of the return predictability is still debatable. In the paper "[Corporate Transactions in Hard-to-Value Stocks](#)," Itzhak Ben-David, Byungwook Kim, Hala Moussawi, and Darren Roulstone investigate this question. One important pillar of the analysis is finding a measure of how difficult it is to value a firm: when the information needed to value a firm is more ambiguous (thus, more likely to encounter disagreement among market participants), there should be more profitable trading opportunities for insiders. The paper finds evidence consistent with the hypothesis that insider and corporate transactions are motivated by executives' perception of mispricing and not with the hypothesis that executives exploit private information. The authors find that corporate transactions are more likely to be contrarian and generate higher profits in stocks that are hard to value than those that are easy to value. This behavior is more aggressive as the firm becomes more difficult to value. The analysis shows that regardless of the degree of how hard it is to value a stock, managers are materially more likely to initiate corporate transactions at 52-week lows or highs for purchase or sale transactions, respectively. This evidence can be more easily reconciled with corporate transactions reflecting managers' beliefs that their stock is mispriced: in this case, managers take advantage of mispricings rather than trading on private knowledge of fundamentals.

*Spotlight by Andrew Ellul*

*Photos courtesy of Itzhak Ben-David, Byungwook Kim, Hala Moussawi, and Darren Roulstone*

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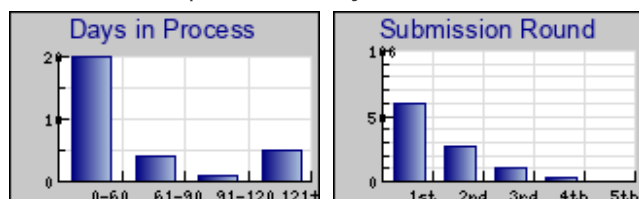
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