Former Insiders' Trading

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ABSTRACT

Using detailed and unique data from Sweden, I show that former insiders trade profitably in the shares of companies with which they used to be affiliated. A trading strategy mimicking former insiders' trading behavior yields abnormal returns of 7.6% per year. These returns are primarily driven by post-separation purchases rather than by sales. They do not reflect general stock-picking skills: former insiders earn significantly lower abnormal returns when trading in companies with which they have no affiliation. I show that former insiders' informational advantage diminishes over time, but less so if they have ties to current insiders. The importance of such ties increases in the presence of value-relevant information. My results are consistent with former insiders benefiting from both a retained informational advantage and from inside information obtained post-separation when trading in inside stock.

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