

EXCESS RETURNS AND SHORT-TERM INSTITUTIONAL TRADING ^{*}

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Abstract:

Our study examines short-term reversal trades of a sample of active institutional fund managers, documenting that short-term reversal trades generate abnormal net of transaction cost returns (both statistically and economically). These trades are consistent with the disposition effect, however rather than being a psychological bias, short-term trades appear to be motivated by an institution's informational advantage. We find no evidence that investment managers exacerbate volatility as in De Long *et al.* (1990b), but instead aid the price discovery process. Consistent with a Grossman-Stiglitz informational efficiency argument, managers profit from providing liquidity and driving prices towards fundamentals.

JEL Classification: G23

Keywords: Short-term Trading, Disposition Effect, Portfolio Turnover, Trading, Net Fund Performance, Transaction Costs, Capital Gains Tax; Dividend Imputation

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