Governance through trading: Institutional swing trades and subsequent firm performance

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Abstract

Using unique daily fund-manager trade data, we examine the role of institutional trading in influencing firm performance. We show that short-horizon informed trading by multiple institutional investors effectively disciplines corporate management. Our focus is on short-term “swing” trades, sequences with three phases (e.g., buy-sell-buy). We find swing trades increase stock price informativeness, are profitable after costs, and improve market efficiency. This increase in stock price informativeness is associated with subsequent firm outperformance. Trades are most beneficial with optimal stock holdings that reflect the information acquisition incentives of investors as well as liquidity costs.