

Strategic Trading in the Wrong Direction by a Large Institutional Investor

Abstract

Numerous theoretical papers suggest that large informed traders should make misleading or random trades to disguise their trading. Alternatively, informed traders may trade purely on their estimate of stock value. This paper examines the case of a large institutional investor that periodically trades in the wrong direction, i.e., makes occasional sell (buy) trades within packages of buy (sell) trades. Using a unique data set, we show that three quarters of the trade packages include wrong-direction trades. We describe the characteristics of the wrong-direction trades and show that they appear to be used more to disguise trade direction because they are relatively small, executed on low-volume days, and not very profitable, although gains on wrong-trade buys may offset losses on wrong-trade sells.