

# **Do Corporate Insiders Take Advantage of Their Political Connections? Evidence from Insider Trading**

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## **Abstract**

Using corporate insiders' employment data, I study the impact of political connections on corporate insiders' trading behavior. I find that purchases (sales) by politically connected corporate insiders are associated with lower (higher) abnormal returns compared with non-politically connected insiders, indicating that politically connected insiders in general are cautious about potential legal risk. This effect is more significant among purchases. I also find that politically connected insiders are more likely to have longer trading horizons and are more likely to make routine trades. The Stop Trading on Congressional Knowledge (STOCK) Act passed in April 2012 effectively decreases (increases) the abnormal returns associated with insider purchases (sales) made by Congress members and staff in short horizons.

Keywords: Political Connection; Insider Trading; Investment Horizon; Routine Insider Trades; Opportunistic Insider Trades; STOCK Act.

JEL Code: G14, G18

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Using corporate insiders' employment data, I study the impact of political connections on corporate insiders' trading behavior. I find that purchases (sales) by politically connected corporate insiders are associated with lower (higher) abnormal returns compared with non-politically connected insiders, indicating that politically connected insiders in general are cautious about potential legal risk. This effect is more significant among purchases. I also find that politically connected insiders are more likely to have longer trading horizons and are more likely to make routine trades. The Stop Trading on Congressional Knowledge (STOCK) Act passed in April 2012 effectively decreases (increases) the abnormal returns associated with insider purchases (sales) made by Congress members and staff in short horizons.

## **1. Introduction**

This paper studies whether political connections affect corporate insiders' trading behavior. Using insiders' employment data, I investigate whether corporate insiders who have current or prior positions in government agencies tend to take advantage of their political connections and trade opportunistically.

In the corporate finance literature, the impact of political connections on firm value is widely examined. Political connections tend to enhance valuations of connected companies, but at the cost of the overall economy and financial system (Goldman, Rocholl, and So, 2009; Cooper, Gulen, and Ovtchinnikov, 2010; Duchin and Sosyura, 2012; Houston et al., 2014; Gao and Huang, 2016; Megginson, 2017). However, there is not much evidence on how political connections affect corporate insider behaviors, especially insider stock transactions. In the insider trading literature, it has been established that insider trades are informative (Seyhun, 1988, 1992; Lakonishok and Lee, 2001; among others). Trades made by certain

groups of insiders are more informative than the rest (Ravina and Sapienza, 2010; Wang, Shin, and Francis, 2012; Cohen, Malloy, and Pomorski, 2012; Ali and Hirshleifer, 2017; Cline, Gokkaya, and Liu, 2017; Akbas, Jiang, and Koch, 2020). Therefore, examining trades made by politically connected insiders (hereafter PC insiders) and how they differ from non-politically connected insiders (hereafter non-PC insiders) is an important question to explore.

There is evidence from a single event showing that political connections provide corporate insiders with an information advantage that can facilitate opportunistic behavior by insiders. Jagolinzer et al. (2020) and Akin et al. (2019) examine financial institutions during the 2007-2009 financial crisis, and Bourveau, Coulomb, and Sangnier (2016) examine the 2007 French presidential election. They all document that insiders with political connections experience abnormal returns and make informed trades. In a general setting, Harvison (2020) employs the political contribution data and finds that PC insiders are more likely to make informative sales than non-PC insiders.

However, insiders are subject to high legal risk if they take advantage of political connections and trade on private information (Netter, Poulsen, and Hersch, 1988; Bhattacharya and Daouk, 2002; Seitzinger, 2016). Such risk will be even higher if insiders hold current or prior positions in government agencies. Therefore, whether PC insiders tend to trade on their information advantage and generate abnormal returns compared with non-PC insiders is an empirically ambiguous question.

By examining transaction-level data over 1990-2017, I find that PC insiders are more cautious about potential legal risk, and their trading behavior is less opportunistic compared to non-PC insiders. The regression analysis shows that the cumulative abnormal returns (CARs) over 30-day window following PC insider purchases are significantly (annualized 10.8%) lower than CARs of purchases by non-PC insiders, whereas CARs following PC insider sales are significantly (annualized 8.4%) higher than CARs of sales by non-PC insiders. The results are similar if I extend the 30-day CAR window to longer horizons. By comparing purchases with sales, I find that after adding firm fixed effects, CARs of purchases by PC

insiders remain significantly lower than that of purchases by non-PC insiders, while the effect is no longer significant for sales. These results are consistent with the cautious PC insider hypothesis.

Next, to explore whether PC insiders perform differently in trading behavior compared with non-PC insiders, I follow Akbas, Jiang, and Koch (2020) and Cohen, Malloy, and Pomorski (2012) to examine whether PC insiders have longer trading horizons and are more likely to make routine trades. Using the order flow-based insider investment horizon measure created in Akbas, Jiang, and Koch (2020), I document that PC insiders tend to trade in longer horizons than non-PC insiders. Using the definition of routine trades in Cohen, Malloy, and Pomorski (2012), I find that PC insiders are more likely to make routine trades than non-PC insiders. In addition to the previous transaction-level results, both findings here provide supporting evidence for the cautious PC insider hypothesis at the insider level.

Last, I employ difference-in-difference (DID) methods to examine the effectiveness of the Stop Trading on Congressional Knowledge (STOCK) Act passed in April 2012, which aims to reduce insider trading by Congress members and staff by prohibiting them from using private information derived from their official positions for personal benefit and other purposes. My sample of corporate insiders with Congressional positions can effectively examine whether the Act functions as expected on corporate insiders. I document that purchases (sales) made by Congress members/staff are associated with more negative (positive) subsequent CARs after the passage of the STOCK Act, compared with non-Congress insiders. These findings show that the STOCK Act is effective in reducing Congress members/staff using their potential information advantage to generate abnormal trading profits.

The contributions of this paper are threefold. First, this is the first paper to examine the impact of corporate insiders' *direct* political connections on their trading behavior in general, by using corporate insiders' employment data. Prior literature using political contribution data does not capture insiders' direct connections. Second, while the existing literature shows that PC insiders use their information advantage to make informed trading around special events such as elections and government bailout during the financial crisis, this is the first paper to provide both transaction-level and insider-level evidence that

corporate insiders with political connections are in general more cautious in their trading behavior compared with other insiders. Third, I add new evidence to the literature showing that the STOCK Act is effective in reducing insider trading behavior by Congress members/staff if they are corporate insiders.

The rest of the paper is organized as follows. Section 2 reviews the related literature and develop hypotheses. Section 3 introduces the data and sample construction. Section 4 presents the empirical design and discusses the empirical results. Section 5 concludes.

## **2. Literature Review and Hypothesis Development**

### *2.1 The literature on political connections*

In the corporate finance literature, the impact of political connections on firm value is widely examined. Most of the studies show that political connections for U.S. companies benefit connected firms. Goldman, Rocholl, and So (2009) employ the political position and political contribution data of board members of the S&P 500 companies over 1996-2000 and show a positive abnormal return following the announcement of the nomination of a politically connected insider to the board. They also document that the Republican win in the 2000 presidential election caused the value of Republican connected firms to increase, but values of Democratic connected firms to decrease. Cooper, Gulen, and Ovtchinnikov (2010) use firm-level campaign contribution data over 1979-2004 to document that political contributions are positively correlated with cross-sectional future stock returns. Duchin and Sosyura (2012) use the data of financial institutions applying for government fund support under the Troubled Asset Relief Program (TARP) during the financial crisis and find that politically connected firms are more likely to receive funding than are non-connected firms. Houston et al. (2014) examine the impact of political connections on the costs and terms of loan contracts. They document that the cost of loans is significantly lower for companies that have board members with political ties. Gao and Huang (2016) construct a hedge fund holding database and use lobby disclosure information to document that hedge funds with connections to

lobbyists tend to tilt their holdings and trading towards politically sensitive stocks, and connected hedge funds perform significantly better on their political holdings than on non-political holdings.

## 2.2 *The literature on insider trading*

It has been established in the insider trading literature that insider trades are informative. Seyhun (1988) investigates the information content of aggregate insider trading using open market insider transactions from 1975 to 1981. He finds that net aggregate insider trading activity in a given month is significantly positively correlated with the market return during the subsequent two months. In his follow-up study of aggregate insider trading, Seyhun (QJE, 1992) examines why aggregate insider trading predicts future stock returns. He finds that up to 60% of variations in one-year-ahead aggregate stock returns can be explained by insider transactions. The predictive ability can be attributed to both changes in business conditions and movement away from fundamentals. Lakonishok and Lee (2001) investigate whether insider trades are informative using all companies traded on NYSE, Amex, or Nasdaq over 1975-1995. They document that in general there is very little market movement when insiders trade and when they report to the SEC. Insiders can predict cross-sectional stock returns, especially for small firms. They are also the first to document that insider purchases are more informative than insider sales. Insider sales appear to have no predictive power.

Several papers study the characteristics of insiders and find that trades made by certain groups of insiders are more informative than the rest. Ravina and Sapienza (2010) find that when independent directors purchase stock, they earn positive abnormal returns similar to returns earned by other executives. When they sell, independent directors also earn significant abnormal returns before bad news and around earnings announcements. They also document that executives and independent directors make higher returns in firms with weaker governance. Wang, Shin, and Francis (2012) investigate whether trades made by CFOs reveal more information than CEOs. They find that compared with CEOs, CFOs earn significantly higher abnormal returns after purchasing company shares. Cohen, Malloy, and Pomorski (2012) create measures to differentiate routine insider trades and opportunistic insider trades. Routine traders are insiders

who place a trade in the same calendar month for at least three consecutive years in the past, and opportunistic trades are everything else. They find that only the opportunistic trades are informative about firms' future performance. Ali and Hirshleifer (2017) examine opportunistic insider trading and its relationship with insider profits. They find that opportunistic insiders can be identified through the profitability of their trades before quarterly earnings announcements. Cline, Gokkaya, and Liu (2017) study the persistent profitable (PP) insiders and find the trades of PP insiders better predict firm performance than those of other insiders. Akbas, Jiang, and Koch (2020) study the horizon of insider investment and the information content of their trades. They find that the trades of short-horizon insiders are both more unexpected and more informed than those of long-horizon insiders. Short horizon insiders and their firms also tend to display attributes that are associated with a greater focus on short-termism.

### 2.3 *Hypothesis development*

In the literature, there is evidence around specific events showing that political connections provide corporate insiders with an information advantage that can facilitate opportunistic behavior by insiders. Jagolinzer et al. (2020) examine one particular industry, financial institutions, during the 2007-2009 financial crisis. They document that insiders with political connections experience abnormal returns prior to the infusion of the Troubled Asset Relief Program (TARP) funds. In a similar setting, Akin et al. (2019) find that insider buying in politically connected banks around the TARP announcement is associated with positive abnormal returns, while there is no such relation for unconnected banks. Bourveau, Coulomb, and Sangnier (2016) examine whether directors' political connections affect their behavior in financial markets using the 2007 French presidential election as an exogenous event. They document positive and significant two-day abnormal returns around the disclosure of purchases by politically connected directors. Harvison (2020) employs the political contribution data and examines the relation of political connections and insider trade informativeness in general. She finds that PC insiders are more likely to make informative sales than non-PC insiders, while there is no such relation for insider purchases.

Although PC insiders may have information advantages which they can use to make abnormal profits, they are also subject to high legal risk if they take advantage of political connections and trade on private information (Netter, Poulsen, and Hersch, 1988; Bhattacharya and Daouk, 2002; Seitzinger, 2016). Such risk is especially high if insiders hold current or prior positions in government agencies. Therefore, whether PC insiders tend to trade on their information advantage and generate abnormal returns compared with non-PC insiders is empirically ambiguous.

If PC insiders are truly opportunistic and tend to take advantage of their information despite the high legal risk, the abnormal returns subsequent to their purchases (sales) should be higher (lower) than returns of non-PC insiders. This is the opportunistic PC insider hypothesis. Alternatively, if PC insiders are sophisticated and cautious about potential legal risk, the abnormal returns subsequent to their purchases (sales) should be indifferent or lower (higher) than returns to non-PC insiders. This is the cautious PC insider hypothesis.

*H1a (Opportunistic PC insider hypothesis): Purchases (sales) by PC insiders are associated with higher (lower) abnormal returns than non-PC insiders.*

*H1b (Cautious PC insider hypothesis): Purchases (sales) by PC insiders are associated with insignificant or lower (higher) abnormal returns than non-PC insiders.*

Numerous studies examine the heterogeneity of insider trades and trading patterns. Akbas, Jiang, and Koch (2020) create an insider investment horizon measure based on insiders' average annual net order flow, and they document that trades of short-horizon insiders are both more unexpected and more informed than trades of long-horizon investors. Therefore, I expect that if PC insiders are opportunistic, then they are more likely to have longer investment horizons than non-PC insiders; on the contrary, if PC insiders are cautious, they are more likely to have shorter investment horizons than non-PC insiders.

*H2a (Opportunistic PC insider hypothesis): PC insiders are more likely to have shorter investment horizons than non-PC insiders.*



*H2b (Cautious PC insider hypothesis): PC insiders are more likely to have longer investment horizons than non-PC insiders.*

Another study investigating different trading patterns among insiders is Cohen, Malloy, and Pomorski (2012), which categorizes insider trades into routine trades and opportunistic trades based on historical trade timings. They document that opportunistic trades are more informative than routine trades. If PC insiders are opportunistic, I expect to find that they make more opportunistic trades than non-PC insiders; conversely, if PC insiders are cautious, I expect that they make more routine trades than non-PC insiders.

*H3a (Opportunistic PC insider hypothesis): PC insiders are more likely to make opportunistic trades.*

*H3b (Cautious PC insider hypothesis): PC insiders are more likely to make routine trades.*

In April 2012, the Congress passes the Stop Trading on Congressional Knowledge (STOCK) Act, which prohibits Congress members and employees from using private information derived from their official positions for personal benefit. The evidence on the effectiveness of the STOCK Act is very limited. Gao and Huang (2016) use hedge fund data and find that the outperformance of politically connected funds declines significantly after the STOCK Act becomes effective. Huang and Xuan (2018) examine US politicians' personal stock investment and provide evidence that after the passage of the Act, politicians no longer exhibit information advantage in trading. Although both studies show that the Act is effective, there is still no clear answer to whether the passage of the STOCK Act has an impact on politically connected corporate insiders. My research design is a suitable setting to answer this question. If the STOCK Act is effective, the subsequent returns for purchases (sales) made by Congress members/staff after April 2012 should be lower (higher) than before.

*H4: After the passage of the STOCK Act, the abnormal returns subsequent to purchases (sales) of Congress members/staff are higher (lower) than before.*

### 3. Data and Sample

I obtain data from multiple sources. Director employment and characteristics data are collected from BoardEx. Insider trading data are collected from Thomson Reuters Form 4 Filings. Stock price and financial data are obtained from CRSP and Compustat, respectively.

Following the insider trading literature, I remove insider transactions with the Thomson Reuter cleanse code in A or S categories, and only use open market purchases or sales (transaction code in P or S) which can capture insiders' true intentions. I remove original filings if there are associated amendment filings available. The transactions are then aggregated on the insider-firm-transaction date level. For example, if an insider makes multiple purchases or multiple sales on one transaction date, I calculate the aggregated shares that are sold or purchased on that date.

Corporate insiders are defined as officers, directors, or any beneficial owners with more than 10% stock ownership.<sup>1</sup> To identify whether a corporate insider is politically connected or not, I use the BoardEx employment file and the screening criteria are based on Goldman, Rocholl, and So (2009). A corporate insider is defined as politically connected if he or she is a current or former member of a government agency when the transaction is made.<sup>2</sup> The advantage of using employment information rather than political

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<sup>1</sup> To be more specific, I keep transactions made by corporate insiders whose role code is in CEO, CB, D, DO, H, OD, VC, AC, CC, EC, FC, MC, SC, AV, CFO, CI, CO, CT, EVP, O, OB, OT, P, SVP, or VP.

<sup>2</sup> To be more specific, an insider is politically connected if he or she has or had a position in US congress, US Department of State, US Executive Office of the President (White House), US Securities and Exchange Commission (SEC), Central Intelligence Agency (CIA), Federal Emergency Management Agency (FEMA), Office of Management and Budget, Internal Revenue Service (IRS), Nuclear Regulatory Commission, United States Social Security Administration, Civil Rights Commission, Food and Drug Administration (FDA), United Nations (UN), presidential campaign, or president's committee or council, or if he or she is a current or former state governor or mayor.

contributions data to define political connections is that employment information can capture the direct political or regulatory ties that a corporate insider has, which is not easy to infer from political contribution data. Those insiders who hold or held a position at government agencies are the ones who are most cautious about insider trading and most sensitive to any possible legal risk.

To construct the main sample, I start with all transactions made by officers or directors in the Thomson Reuters Form 4 Filings database from 1990 through 2017, then I merge the employment information from BoardEx to insider transactions. I exclude transactions that have no CRPS or Compustat data available. This procedure yields to 1,414,214 transactions aggregated on insider-firm-transaction date level and made by 148,107 unique corporate insiders in 12,843 unique firms. Using BoardEx employment information, I identify 37,078 transactions made by 2,855 unique PC insiders in 2,899 unique firms. Table 1 provides summary statistics of the transaction-level variables, both for the full sample and by PC insider indicator. In addition to the main sample, I also construct an insider-year level sample for the insider-level tests. Summary statistics are also reported in Table 1.

**\*\*\*\* Insert Table 1 here \*\*\*\***

To measure the informativeness of insider transactions, I use both the market-adjusted return model (MAR) and the market model (MM) to calculate cumulative abnormal returns (CARs) subsequent to insider transactions over four different trading horizons, namely, CARs over 30-day, 60-day, 120-day, and 255-day windows. To make sure my results are robust to different market benchmarks, I use both equally-weighted (EW) and value-weighted (VW) market indices to calculate daily abnormal returns. To be more specific, CARs are calculated as

$$CAR_j[0, h] = \sum_{d=0}^h (R_j^d - R_{expected}^d) \quad (1)$$

where  $CAR_j[0, h]$  is the sum of daily abnormal returns for firm  $j$  over horizon  $h$ ,  $R_j^d$  is the daily raw return for firm  $j$  on day  $d$ , and  $R_{expected}^d$  is the expected return for firm  $j$  on day  $d$ , which is the daily CRSP EW or VW market index return in the MAR, or the expected return derived from the MM regressions. MM

requires that the estimation period ends 31 days before the transaction date and has 255 days in length, with a minimum of four days of trading. I report the summary statistics of MAR-EW CARs in Table 1, and the rest of CAR measures are summarized in Appendix B.

As Table 1 panel A shows, 2.6% of transactions are made by PC insiders. Purchases and sales account for 28.3% and 71.7% of all transactions, respectively. Among PC insider transactions, 0.4% are made by those who are Congress members/staff at the time of the transaction. At firm-year level, there are 7.6 insiders who trade per firm-year, and a firm has on average 0.2 PC insider per year. 17.4% of firms have insider trades made by PC insiders. Among all insiders, 8.1% are CEOs, and 52.4% and 52.7% hold director and officer positions, respectively. Among insiders who have BoardEx data available, 5.7% have a Ph.D., 26.5% have an MBA, 9.9% have a J.D., 11.5% have a CPA, and 0.7% have a CFA. In Panel B, I report summary statistics of PC insider transactions and non-PC insider transactions. On average, compared with non-PC insiders, PC insiders are associated with higher subsequent CARs, tend to make more purchases and fewer sales, and tend to make trades larger in size. PC insiders are more likely to be directors and have a Ph.D. or J.D. degree, but less likely to be CEO, officers, or have an MBA, CPA, or CFA.

## 4. Empirical Design and Results

### 4.1 Baseline regressions

To examine the informativeness of politically connected insider purchases and sales separately, I follow Jagolinzer et al. (2020) and Harvison (2020) to apply the baseline regression model in equation (2) on the transaction-level sample,

$$CAR[0, h] = \alpha + \beta_1 PCinsider * Buy + \beta_2 PCinsider * Sell + \beta_3 Buy + \beta_4 PastMonthRet + \beta_5 PastYearRet + \beta_6 Size + \beta_7 BookMarket + \gamma_t + \gamma_j + \varepsilon \quad (2)$$

where  $CAR[0, h]$  is the cumulative abnormal returns over trading window  $[0, h]$  using multiple adjustment models and benchmarks,  $PCinsider$  is an indicator variable which equals one if a corporate insider is a

current or former member of government agencies, *Buy* is an indicator variable which equals one if the transaction is a purchase, *Sell* is an indicator variable which equals one if the transaction is a sale, *PastMonthRet* is the raw return over the month  $t-1$  if the transaction happens in month  $t$ , *PastYearRet* is the raw return over the past year from month  $t-2$  to month  $t-12$  if the transaction happens in month  $t$ , *Size* is the natural logarithm of market value at the end of month  $t$ , *BookMarket* is the book-to-market ratio at the end of month  $t$ , where book value is from the prior quarter-end, and  $\gamma_t$  and  $\gamma_j$  are year-month and firm fixed effects, respectively. The base group in the regression is the sales made by non-PC insiders.

I report the baseline regression results with year-month fixed effects in Table 2. Panel A shows the results of CAR[0,30] and CAR[0,60], and Panel B shows the results of CAR[0,120] and CAR[0,255]. In Panel A, compared with sales by non-PC insiders, purchases by PC insiders are associated with significantly negative subsequent returns at mostly 5% or higher significance level, whereas sales by PC insiders are associated with significantly positive abnormal returns. The coefficient of *Buy* is positive and highly significant, which means that purchases by non-PC insiders are associated with positive abnormal returns. This may indicate that, compared with PC insiders, non-PC insiders are less cautious and more likely to take advantage of private information. In terms of the control variables, CARs are higher when a firm has lower past month's return, lower past year's return, smaller size, and lower book-to-market ratio.

**\*\*\*\* Insert Table 2 here \*\*\*\***

The CAR results are also economically significant. Taking CAR[0,30] measured by MAR EW for example, PC insider purchases are associated with the abnormal return of 0.9% less than non-PC insider purchases over the 30-day period, which equivalent to -10.8% ( $-0.9\% * 12$ ) annualized CAR; PC insider sales are associated with the abnormal return of 0.7% higher than non-PC insider sales over the 30-day period, which equivalent to 8.4% ( $0.7\% * 12$ ) annualized CAR.

CAR[0,120] and CAR[0,255] results in Panel B are similar but weaker than the results over shorter horizons. Purchases by PC insiders are negative and significant only for MAR adjustments, and sales by PC insiders are significantly positive for CARs over a [0,120] horizon, but not over a [0,255] horizon.

In Table 3, I report the baseline regression results with both year-month and firm fixed effects. In Panel A, the interaction terms of purchases are significant across all measures of CAR[0,30] and CAR[0,60]. However, the interaction terms of sales are not significant.

**\*\*\*\* Insert Table 3 here \*\*\*\***

The findings that PC insider purchases are associated with negative abnormal returns while sales are associated with positive abnormal returns indicate that rather than taking advantage of private information they might have, PC insiders are sophisticated and cautious about the potential risk associated with insider trading. These findings support the cautious PC insider hypothesis.

Another noteworthy finding is that the t values of purchase interactions are generally higher than those of sale interactions across horizons and adjustment models, especially in Table 3 where firm fixed effects are included.

#### 4.2 *PC insider trading patterns*

Next, I examine if PC insiders are systematically different from non-PC insiders in terms of their trading patterns. The findings discussed in previous sections indicate that trades by PC insiders are not as informative as those made by non-PC insiders. A number of recent studies in the insider trading literature investigate the heterogeneity of insider trading patterns and document important evidence that certain groups of insiders are more likely to make informed trades. In this section, I examine whether the trading behavior of PC insiders is consistent with the cautious PC insider hypothesis.

##### 4.2.1 *Insider trading horizon*

Akbas, Jiang, and Koch (2020) create a trading horizon measure and examine the different trading horizons among corporate insiders. They document that the trades of short-horizon insiders are more

informed and more unexpected than the trades of long-horizon insiders. Following their methodology, I create the insider investment horizon measure (*HOR*) as

$$HOR_{i,j,y} = \left| \frac{\sum_{y-10}^{y-1} IOF_{i,j,y}}{N} \right| \quad (3)$$

where  $IOF_{i,j,y}$  is the annual net insider order flow of insider  $i$  at firm  $j$  in year  $y$ , which is calculated by

$\frac{P_{i,j,y} - S_{i,j,y}}{P_{i,j,y} + S_{i,j,y}}$ , where  $P$  is the number of share purchases during year  $y$ ,  $S$  is the number of shares sold, and  $N$  is

the number of calendar years the insider traded over the 10 years prior to year  $y$ . I require the insider to have traded in at least two of the past 10 years to be included in the sample. For an insider who only buys in a given year,  $IOF$  equals  $P/P=1$ ; for an insider who only sells in a given year,  $IOF$  equals  $-S/S=-1$ ; for an insider whose purchases and sales exactly offset one another in a given year,  $IOF=0$ . Therefore,  $IOF$  in a given year ranges from -1 to 1.  $HOR$  is then calculated by taking the absolute value of the average of the annual net order flow over the past ten years. The final  $HOR$  measure ranges from 0 to 1, with 0 indicating insiders who both buy and sell an equal number of shares in a year over the past 10 years, and 1 indicating insiders who either only buy or only sell over the past 10 years. Since the  $HOR$  measure requires ten years of trading history and TR insider data become available from 1996,  $HOR$  is available in my sample from 1996 onwards. As reported in Table 1, the average  $HOR$  for the insider-firm-year level sample is 0.80.

To examine whether PC insiders are more likely to have longer trading horizons, I use the insider-firm-year level sample and run the regression model in equation (4)

$$HOR_{i,j,y} = \alpha + \beta_1 PCinsider + \beta_2 Size + \beta_3 BookMarket + \gamma_i + \gamma_j + \gamma_y + \varepsilon \quad (4)$$

where  $HOR$  is the insider trading horizon for insider  $i$  at firm  $j$  in year  $y$ ,  $PCinsider$  is an indicator variable which equals one if a corporate insider is a current or former member of a government agency,  $Size$  is the natural logarithm of market value at the end of year  $y$ ,  $BookMarket$  is the book-to-market ratio at the end of year  $y$ , and  $\gamma_i$ ,  $\gamma_j$ , and  $\gamma_y$  are insider, firm, and year fixed effects, respectively.

\*\*\*\* Insert Table 4 here \*\*\*\*

In Table 4, I report the results of equation (4) using multiple fixed effects specifications. The *PCinsider* dummy variable is significantly positive in four of five models, indicating that PC insiders are more likely to have longer trading horizons compared with non-PC insiders. Given that Akbas, Jiang, and Koch (2020) document the negative relation between the trading horizon and informativeness of their trades, the finding that PC insiders on average have longer horizons is consistent with the cautious PC insider hypothesis.

#### 4.2.2 Routine versus opportunistic insiders

Cohen, Malloy, and Pomorski (2012) is the first study to examine routine insider trading patterns. They categorize insider trades into routine trades and opportunistic trades using insiders' past trading history and find that only opportunistic trades are informative about firms' futures. I follow their method to identify routine and opportunistic insider trades and examine whether PC insiders are more likely to make routine trades than non-PC insiders. Specifically, I define a routine trader as an insider who placed a trade in the same calendar month for at least three consecutive years, and everyone else is defined as an opportunistic trader. I require an insider to make at least one trade in each of the three preceding years to be defined as either an opportunistic or a routine trader. Once an insider is categorized as a routine insider at firm  $j$  in year  $y$ , he or she is a routine insider for all subsequent years. Using the insider-firm-year level sample, I run the following regression model in equation (5)

$$Routine_{i,j,y} = \alpha + \beta_1 PCinsider + \beta_2 Size + \beta_3 BookMarket + \gamma_i + \gamma_j + \gamma_y + \varepsilon \quad (5)$$

where *Routine* is an indicator variable which equals one if insider  $i$  is a routine insider at firm  $j$  in year  $y$  and zero otherwise, *PCinsider* is an indicator variable which equals one if a corporate insider is a current or former member of a government agency, *Size* is the natural logarithm of market value at the end of year  $y$ , *BookMarket* is the book-to-market ratio at the end of year  $y$ , and  $\gamma_i$ ,  $\gamma_j$ , and  $\gamma_y$  are insider, firm, and year fixed effects, respectively.



I report the results of equation (5) in Table 5. *PCinsider* is significant and positively associated with *Routine* in model (1) and (2), where insider and firm fixed effects are included. If I add year fixed effects, the coefficients of *PCinsider* remain positive but become insignificant. In Cohen, Malloy, and Pomorski (2012), they find that only trades by opportunistic insiders are informative about firms' futures. The findings that PC insiders are more likely to be routine insiders and make predictable and identifiable trades indicate that PC insiders in general are sophisticated investors and cautious about potential legal risk, and thus support the cautious PC insider hypothesis.

\*\*\*\* **Insert Table 5 here** \*\*\*\*

#### 4.3 *The effectiveness of the STOCK Act*

In April 2012, the Congress passes the Stop Trading on Congressional Knowledge (STOCK) Act, which prohibits Congress members and employees from using private information derived from their official positions for personal benefit. I investigate the effectiveness of the STOCK Act using the difference-in-difference (DID) method shown in equation (6). To examine the impact of the STOCK Act on Congress members/staff versus on other non-Congress PC insiders, I only use transactions made by PC insiders in the DID regression. To make sure that the number of observations is similar before and after the passage of the act, I use transactions made from January 2005 onwards<sup>3</sup>. The treated group includes transactions made by connected insiders who are Congress members/staff at the time of transactions, while the control group includes transactions made by other PC insiders or former Congress members/staff. Among the 20,513 transactions made by PC insiders after January 2005, 59 observations are in the treated group. If the STOCK Act is effective, the purchases (sales) made by the treated group should be associated with lower (higher) subsequent returns after the passage of the STOCK Act. The DID regression is designed as

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<sup>3</sup> Results are similar if I use transactions from 2006 onwards or 2007 onwards.

$$\begin{aligned}
CAR[0, h] = & \alpha + \beta_1 Congress * After * Buy + \beta_2 Congress * After * Sell + \\
& \beta_3 Congress * Buy + \beta_4 Congress * Sell + \beta_5 Buy + \beta_6 PastMonthRet + \beta_7 PastYearRet + \\
& \beta_8 Size + \beta_9 BookMarket + \gamma_t + \gamma_j + \varepsilon
\end{aligned} \tag{6}$$

where *Congress* is an indicator variable which equals one if a corporate insider is a US Congress member or staff when the transaction is made, and *After* is an indicator variable which equals one if an insider transaction happens after April 2012. The variables of interest are the two triple interaction terms which should be significant if the act is effective in reducing opportunistic insider trading by Congress members/staff.

**\*\*\*\* Insert Table 6 here \*\*\*\***

As Table 6 Panel A shows, the triple interaction term for purchases is negative and significant for all CAR[0,30] and CAR[0,60] measures, while the triple interaction term for sales is significantly negative for CAR[0,60] measures. In Panel B, CARs over longer horizons show similar but weaker patterns. In Table 7 where firm fixed effects are added, the effect for sales is significant using CAR[0,30] or CAR[0,120] as the dependent variable, whereas the interaction term for purchases is significant using CAR[0,60]. However, the purchase interaction term becomes positive and significant for CAR[0,255]. Thus, I find that the STOCK Act can effectively reduce opportunistic insider trading by Congress members/staff, while the effectiveness seems is limited to short horizons.

**\*\*\*\* Insert Table 7 here \*\*\*\***

#### 4.4 *Robustness checks*

##### 4.4.1 *Matched sample analysis*

Instead of using the full sample, I construct a one-to-five matched sample to show that my baseline results are robust. For a given transaction made by a PC insider, I match it to five same-type (purchase or sale) transactions made by non-PC insiders from the same firm in the same year with the nearest trade size. The matched sample consists of 148,957 observations, among which 29,552 (19.8%) are transactions made

by PC insiders and the rest (80.1%) are made by the control group<sup>4</sup>. I report the regression results based on equation (2) in Appendix C. Consistent with the baseline results, purchases by PC insiders are associated with significantly lower CARs, especially over the 30-day window.

## **5. Conclusions**

In this paper, I use insiders' employment data to investigate whether corporate insiders who have current or prior positions in one or more government agencies tend to take advantage of their political connections and trade opportunistically. I find that PC insiders are more cautious about potential legal risk, and their trading behavior is less opportunistic compared with non-PC insiders. I document that purchases (sales) by PC insiders are associated with lower (higher) abnormal returns compared with non-PC insiders, and this effect is more significant among purchases. I also find that, compared with non-PC insiders, PC insiders tend to trade in longer horizons and are more likely to make routine trades. The STOCK Act passed in April 2012 effectively decreases (increases) the abnormal returns associated with insider purchases (sales) made by Congress members and staff in short horizons.

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<sup>4</sup> There are PC insider transactions which cannot be matched to any control transaction or can be matched to fewer than five control transactions.

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**Table 1. Summary statistics**

This table reports the summary statistics of the full sample in Panel A, and the sample of politically connected insiders and non-politically connected insiders in Panel B. CARs are calculated using market-adjusted returns against CRSP equally-weighted market index. Rest of the CAR measures are reported in Appendix B. *PCinsider* is an indicator variable which equals one if a corporate insider is a current or former member of government agencies. *Buy* is an indicator variable which equals one if the transaction is a purchase. *Sell* is an indicator variable which equals one if the transaction is a sale. *Congress* is an indicator variable which equals one if a corporate insider is a US Congress member or staff when the transaction is made. *PastMonthRet* is the raw return over the month  $t-1$  if the transaction happens in month  $t$ . *PastYearRet* is the raw return over the past year from month  $t-2$  to month  $t-12$  if the transaction happens in month  $t$ . *Size* is the natural logarithm of firm market value in \$millions at the end of month  $t$ . *BookMarket* is the Book-to-market ratio at the end of month  $t$ , where book value is from the prior quarter-end. *TradeSize* is the Natural logarithm of insider transaction size in \$millions. *HOR* is the measure of insider trading horizon following Akbas, Jiang, and Koch (2020). *Routine* is an indicator variable which equals one if an insider makes trades in the same calendar month for three consecutive years, following Cohen, Malloy, and Pomorski (2012). *CEO* is an indicator variable if an insider is CEO. *Director* is an indicator variable if an insider is a director. *Officer* is an indicator variable if an insider is an officer. *PhD* is an indicator variable if an insider has a Ph.D. *MBA* is an indicator variable if an insider has an MBA. *JD* is an indicator variable if an insider has a JD. *CPA* is an indicator variable if an insider has a CPA. *CFA* is an indicator variable if an insider has a CFA. *Age* is the age of insiders collected from BoardEx. *Networksize* is the size of network collected from BoardEx. Detailed variable definitions are in Appendix A.

Panel A. Summary statistics of full sample

Variables	N	Mean	SD	Min	Max
<b>Transaction-level sample</b>					
<i>CAR[0,30]</i>	1,384,164	0.003	0.176	-2.463	17.728
<i>CAR[0,60]</i>	1,384,215	-0.002	0.246	-2.618	18.184
<i>CAR[0,120]</i>	1,384,297	-0.010	0.351	-3.831	23.657
<i>CAR[0,255]</i>	1,384,340	-0.025	0.529	-7.910	38.447
<i>PCinsider</i>	1,414,214	0.026	0.160	0	1
<i>Buy</i>	1,414,214	0.283	0.450	0	1
<i>Sell</i>	1,414,214	0.717	0.450	0	1
<i>Congress</i>	37,078	0.004	0.060	0	1
<i>PastMonthRet</i>	1,384,573	0.028	0.179	-0.894	10.344
<i>PastYearRet</i>	1,314,245	0.227	1.228	-0.993	248.600
<i>Size</i>	1,408,496	6.405	2.078	-1.765	13.690
<i>BookMarket</i>	1,397,792	0.549	1.225	-383.688	108.073
<i>TradeSize</i>	1,414,196	-2.526	2.215	-19.676	11.375
<b>Insider-firm-year-level sample</b>					
<i>HOR</i>	190,385	0.799	0.331	0	1
<i>Routine</i>	87,271	0.345	0.475	0	1
<i>CEO</i>	494,207	0.081	0.273	0	1
<i>Director</i>	494,207	0.524	0.499	0	1
<i>Officer</i>	494,207	0.527	0.499	0	1
<i>PhD</i>	360,501	0.057	0.233	0	1
<i>MBA</i>	360,501	0.265	0.441	0	1
<i>JD</i>	360,501	0.099	0.299	0	1
<i>CPA</i>	360,501	0.115	0.319	0	1
<i>CFA</i>	360,501	0.007	0.086	0	1
<i>Age</i>	350,963	68.371	10.277	30	105
<i>NetworkSize</i>	334,022	1052.137	1536.329	1	21,294

**Table 1. Summary Statistics (continued)**

Panel B. Summary statistics by *PCinsider*

Variables	PCinsider=0					PCinsider=1					Mean(1)-Mean(0)	
	N	Mean	SD	Min	Max	N	Mean	SD	Min	Max	Difference	t-value
<b>Transaction-level sample</b>												
<i>CAR[0,30]</i>	1,347,633	0.003	0.177	-2.463	17.728	36,531	0.005	0.160	-1.415	2.427	0.002***	2.123
<i>CAR[0,60]</i>	1,347,683	-0.002	0.247	-2.618	18.184	36,532	0.004	0.222	-1.687	2.492	0.005***	4.136
<i>CAR[0,120]</i>	1,347,765	-0.010	0.352	-3.831	23.657	36,532	0.000	0.323	-2.703	6.768	0.010***	5.463
<i>CAR[0,255]</i>	1,347,808	-0.025	0.530	-7.910	38.447	36,532	-0.016	0.487	-4.329	8.225	0.009***	3.217
<i>Buy</i>	1,377,136	0.282	0.450	0	1	37,078	0.314	0.464	0	1	0.032***	13.671
<i>Sell</i>	1,377,136	0.718	0.450	0	1	37,078	0.686	0.464	0	1	-0.032***	-13.671
<i>PastMonthRet</i>	1,348,028	0.028	0.180	-0.894	10.344	36,545	0.024	0.159	-0.880	5.327	-0.004***	-4.683
<i>PastYearRet</i>	1,278,875	0.227	1.175	-0.993	248.600	35,370	0.231	2.467	-0.984	248.600	0.004	0.548
<i>Size</i>	1,371,521	6.381	2.067	-1.765	13.690	36,975	7.299	2.264	0.462	13.485	0.918***	84.081
<i>BookMarket</i>	1,361,031	0.550	1.234	-383.688	108.073	36,761	0.502	0.820	-11.243	33.802	-0.048***	-7.360
<i>TradeSize</i>	1,377,118	-2.535	2.213	-19.676	11.375	37,078	-2.192	2.253	-15.291	7.187	0.343***	29.450
<b>Insider-level sample</b>												
<i>HOR</i>	184,583	0.799	0.331	0	1	5,802	0.805	0.330	0	1	0.006	1.289
<i>Routine</i>	84,317	0.344	0.475	0	1	2,954	0.372	0.483	0	1	0.027***	3.075
<i>CEO</i>	480,861	0.081	0.274	0	1	13,346	0.072	0.259	0	1	-0.009***	-3.832
<i>Director</i>	480,861	0.516	0.500	0	1	13,346	0.824	0.381	0	1	0.308***	70.641
<i>Officer</i>	480,861	0.534	0.499	0	1	13,346	0.257	0.437	0	1	-0.277***	-63.489
<i>PhD</i>	347,155	0.054	0.225	0	1	13,346	0.154	0.361	0	1	0.100***	48.919
<i>MBA</i>	347,155	0.268	0.443	0	1	13,346	0.194	0.396	0	1	-0.074***	-18.970
<i>JD</i>	347,155	0.095	0.293	0	1	13,346	0.223	0.416	0	1	0.128***	48.762
<i>CPA</i>	347,155	0.118	0.323	0	1	13,346	0.036	0.187	0	1	-0.082***	-29.233
<i>CFA</i>	347,155	0.008	0.086	0	1	13,346	0.004	0.063	0	1	-0.004***	-4.711
<i>Age</i>	337,692	68.120	10.218	31	105	13,271	74.766	9.682	30	103	6.646***	73.636
<i>NetworkSize</i>	322,491	1010.673	1483.181	1	21,294	11,531	2211.748	2335.845	7	18,224	1201.074***	83.341

**Table 2. Politically connected insider transactions and their informativeness with time fixed effects**

This table reports the regression results of politically connected insider transactions and subsequent returns with time fixed effects using CAR[0,30] and CAR[0,60] in Panel A, and CAR[0,120] and CAR[0,255] in Panel B. *PCinsider* is an indicator variable which equals one if a corporate insider is a current or former member of government agencies. *Buy* is an indicator variable which equals one if the transaction is a purchase. *Sell* is an indicator variable which equals one if the transaction is a sale. *PastMonthRet* is the raw return over the month  $t-1$  if the transaction happens in month  $t$ . *PastYearRet* is the raw return over the past year from month  $t-2$  to month  $t-12$  if the transaction happens in month  $t$ . *Size* is the natural logarithm of firm market value in \$millions at the end of month  $t$ . *BookMarket* is the Book-to-market ratio at the end of month  $t$ , where book value is from the prior quarter-end. Detailed variable definitions are in Appendix A.

Panel A. CAR[0,30] and CAR[0,60]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,30]	[0,30]	[0,30]	[0,30]	[0,60]	[0,60]	[0,60]	[0,60]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	-0.009*** (-2.77)	-0.009*** (-2.93)	-0.006* (-1.68)	-0.007** (-2.13)	-0.014*** (-3.16)	-0.015*** (-3.17)	-0.011** (-2.01)	-0.011** (-2.18)
<i>PCinsider*Sell</i>	0.007* (1.65)	0.007* (1.67)	0.005 (1.49)	0.006* (1.84)	0.016** (2.11)	0.016** (2.09)	0.013** (2.12)	0.014** (2.37)
<i>Buy</i>	0.033*** (25.56)	0.033*** (25.47)	0.054*** (32.20)	0.055*** (32.23)	0.046*** (22.79)	0.046*** (22.70)	0.088*** (29.49)	0.089*** (29.36)
<i>PastMonthRet</i>	-0.013** (-2.31)	-0.013** (-2.33)	-0.044*** (-8.26)	-0.042*** (-7.62)	-0.012* (-1.70)	-0.011* (-1.65)	-0.070*** (-9.78)	-0.069*** (-9.70)
<i>PastYearRet</i>	0.002*** (2.87)	0.002*** (2.78)	-0.020*** (-5.02)	-0.021*** (-5.06)	0.001 (1.32)	0.001 (1.30)	-0.041*** (-5.05)	-0.043*** (-5.07)
<i>Size</i>	-0.003*** (-9.97)	-0.003*** (-10.09)	-0.003*** (-9.13)	-0.003*** (-8.39)	-0.006*** (-11.68)	-0.006*** (-11.58)	-0.006*** (-9.20)	-0.005*** (-8.53)
<i>BookMarket</i>	-0.001 (-1.01)	-0.001 (-0.99)	0.004*** (3.47)	0.004*** (3.39)	0.002 (1.56)	0.002 (1.58)	0.010*** (4.58)	0.011*** (4.60)
Observations	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045
Adjusted R-squared	0.020	0.042	0.060	0.086	0.023	0.049	0.087	0.119
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No	No	No	No	No



**Table 2. Politically connected insider transactions and their informativeness with time fixed effects (continued)**

Panel B. CAR[0,120] and CAR[0,255]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,120]	[0,120]	[0,120]	[0,120]	[0,255]	[0,255]	[0,255]	[0,255]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	-0.019*** (-2.74)	-0.020*** (-2.80)	-0.016 (-1.50)	-0.015 (-1.54)	-0.024** (-2.03)	-0.025** (-2.08)	-0.021 (-1.03)	-0.019 (-0.95)
<i>PCinsider*Sell</i>	0.029** (2.21)	0.029** (2.19)	0.022** (2.13)	0.024** (2.37)	0.039 (1.46)	0.039 (1.46)	0.029 (1.26)	0.033 (1.47)
<i>Buy</i>	0.055*** (16.39)	0.055*** (16.45)	0.137*** (24.48)	0.140*** (24.43)	0.064*** (10.71)	0.065*** (10.76)	0.237*** (21.05)	0.243*** (21.05)
<i>PastMonthRet</i>	-0.017** (-2.01)	-0.017** (-1.99)	-0.133*** (-12.28)	-0.131*** (-12.10)	-0.030** (-2.29)	-0.029** (-2.22)	-0.272*** (-13.44)	-0.269*** (-13.19)
<i>PastYearRet</i>	0.000 (0.17)	0.000 (0.15)	-0.082*** (-5.04)	-0.087*** (-5.04)	-0.006** (-2.44)	-0.006** (-2.41)	-0.181*** (-5.14)	-0.189*** (-5.13)
<i>Size</i>	-0.012*** (-12.84)	-0.012*** (-12.77)	-0.011*** (-9.66)	-0.011*** (-8.82)	-0.027*** (-14.68)	-0.027*** (-14.57)	-0.025*** (-10.52)	-0.023*** (-9.62)
<i>BookMarket</i>	0.008*** (3.50)	0.008*** (3.50)	0.025*** (5.40)	0.026*** (5.37)	0.017*** (3.64)	0.017*** (3.63)	0.052*** (5.68)	0.054*** (5.69)
Observations	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045	1,306,045
Adjusted R-squared	0.028	0.054	0.122	0.157	0.039	0.061	0.168	0.197
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No	No	No	No	No

**Table 3. Politically connected insider transactions and their informativeness with firm and time fixed effects**

This table reports the regression results of politically connected insider transactions and subsequent returns with time and firm fixed effects using CAR[0,30] and CAR[0,60] in Panel A, and CAR[0,120] and CAR[0,255] in Panel B. *PCinsider* is an indicator variable which equals one if a corporate insider is a current or former member of government agencies. *Buy* is an indicator variable which equals one if the transaction is a purchase. *Sell* is an indicator variable which equals one if the transaction is a sale. *PastMonthRet* is the raw return over the month  $t-1$  if the transaction happens in month  $t$ . *PastYearRet* is the raw return over the past year from month  $t-2$  to month  $t-12$  if the transaction happens in month  $t$ . *Size* is the natural logarithm of firm market value in \$millions at the end of month  $t$ . *BookMarket* is the Book-to-market ratio at the end of month  $t$ , where book value is from the prior quarter-end. Detailed variable definitions are in Appendix A.

Panel A. CAR[0,30] and CAR[0,60]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,30]	[0,30]	[0,30]	[0,30]	[0,60]	[0,60]	[0,60]	[0,60]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	-0.009*** (-3.08)	-0.009*** (-3.14)	-0.008*** (-2.58)	-0.010*** (-3.11)	-0.012*** (-2.65)	-0.012*** (-2.68)	-0.012*** (-2.75)	-0.013*** (-3.01)
<i>PCinsider*Sell</i>	0.002 (0.93)	0.002 (0.98)	-0.001 (-0.41)	0.000 (0.11)	0.004 (1.32)	0.004 (1.28)	-0.000 (-0.05)	0.001 (0.25)
<i>Buy</i>	0.037*** (30.06)	0.037*** (29.93)	0.052*** (34.75)	0.052*** (34.92)	0.046*** (25.53)	0.046*** (25.46)	0.076*** (31.07)	0.077*** (30.79)
<i>PastMonthRet</i>	-0.022*** (-4.35)	-0.023*** (-4.34)	-0.033*** (-6.47)	-0.031*** (-5.82)	-0.021*** (-3.29)	-0.021*** (-3.22)	-0.039*** (-5.63)	-0.037*** (-5.31)
<i>PastYearRet</i>	0.000 (0.15)	0.000 (0.12)	-0.019*** (-4.67)	-0.020*** (-4.71)	-0.000 (-0.45)	-0.000 (-0.47)	-0.037*** (-4.73)	-0.039*** (-4.75)
<i>Size</i>	-0.023*** (-22.57)	-0.023*** (-22.56)	-0.040*** (-29.69)	-0.040*** (-29.40)	-0.065*** (-37.72)	-0.064*** (-37.60)	-0.095*** (-37.46)	-0.097*** (-37.18)
<i>BookMarket</i>	-0.001* (-1.82)	-0.001* (-1.80)	0.001 (1.16)	0.001 (1.09)	-0.001 (-1.25)	-0.001 (-1.23)	0.004* (1.69)	0.004* (1.69)
Observations	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652
Adjusted R-squared	0.107	0.127	0.146	0.170	0.158	0.181	0.210	0.242
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Table 3. Politically connected insider transactions and their informativeness with firm and time fixed effects (continued)**

Panel B. CAR[0,120] and CAR[0,255]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,120]	[0,120]	[0,120]	[0,120]	[0,255]	[0,255]	[0,255]	[0,255]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	-0.012*	-0.012*	-0.017**	-0.016**	-0.019*	-0.020*	-0.038***	-0.034**
	(-1.66)	(-1.69)	(-2.24)	(-2.31)	(-1.89)	(-1.94)	(-2.63)	(-2.54)
<i>PCinsider*Sell</i>	0.005	0.005	-0.004	-0.003	-0.007	-0.008	-0.023**	-0.020*
	(0.93)	(0.91)	(-0.73)	(-0.44)	(-0.78)	(-0.78)	(-2.05)	(-1.70)
<i>Buy</i>	0.047***	0.048***	0.107***	0.108***	0.049***	0.050***	0.175***	0.176***
	(16.89)	(16.98)	(24.59)	(24.29)	(10.49)	(10.57)	(20.53)	(20.15)
<i>PastMonthRet</i>	-0.027***	-0.027***	-0.065***	-0.060***	-0.034***	-0.034***	-0.116***	-0.107***
	(-3.57)	(-3.53)	(-6.82)	(-6.28)	(-3.34)	(-3.31)	(-7.11)	(-6.50)
<i>PastYearRet</i>	-0.001	-0.001	-0.073***	-0.077***	-0.006***	-0.006***	-0.159***	-0.167***
	(-0.54)	(-0.56)	(-4.73)	(-4.72)	(-2.81)	(-2.81)	(-4.84)	(-4.83)
<i>Size</i>	-0.134***	-0.134***	-0.195***	-0.199***	-0.270***	-0.269***	-0.398***	-0.403***
	(-43.35)	(-43.29)	(-39.25)	(-38.68)	(-46.47)	(-46.36)	(-39.61)	(-38.88)
<i>BookMarket</i>	0.001	0.001	0.011**	0.011**	0.001	0.001	0.022***	0.023***
	(0.51)	(0.53)	(2.56)	(2.57)	(0.25)	(0.27)	(2.72)	(2.75)
Observations	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652	1,305,652
Adjusted R-squared	0.233	0.253	0.298	0.331	0.360	0.375	0.395	0.422
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Table 4. Politically connected insiders and insider investment horizon**

This table reports the regression results of politically connected insiders and their trading horizons. The dependent variable *HOR* is the measure of insider trading horizon following Akbas, Jiang, and Koch (2020). *PCinsider* is an indicator variable which equals one if a corporate insider is a current or former member of government agencies. *Size* is the natural logarithm of firm market value in \$millions at the end of year *y*. *BookMarket* is the Book-to-market ratio at the end of year *y*. Detailed variable definitions are in Appendix A.

	(1)	(2)	(3)	(4)	(5)
	HOR	HOR	HOR	HOR	HOR
<i>PCinsider</i>	0.106*** (2.87)	0.087** (2.34)	-0.011 (-1.44)	0.087** (2.34)	0.078** (2.15)
<i>Size</i>	0.003 (1.52)	-0.001 (-0.66)	0.007*** (2.59)	-0.001 (-0.66)	-0.001 (-0.49)
<i>BookMarket</i>	0.005*** (2.95)	0.003* (1.93)	0.002 (1.36)	0.003* (1.93)	0.002 (1.47)
Observations	170,648	170,648	188,638	170,648	170,049
Adjusted R-squared	0.527	0.530	0.171	0.530	0.572
Insider FE	Yes	Yes	No	Yes	Yes
Year FE	No	Yes	Yes	No	Yes
Firm FE	No	No	Yes	Yes	Yes

**Table 5. Politically connected insiders and routine trades**

This table reports the regression results of politically connected insider transactions and routine indicator. The dependent variable *Routine* is an indicator variable which equals one if an insider makes trades in the same calendar month for three consecutive years, following Cohen, Malloy, and Pomorski (2012). *PCinsider* is an indicator variable which equals one if a corporate insider is a current or former member of government agencies. *Size* is the natural logarithm of firm market value in \$millions at the end of year *y*. *BookMarket* is the Book-to-market ratio at the end of year *y*. Detailed variable definitions are in Appendix A.

	(1)	(2)	(3)	(4)	(5)
	Routine	Routine	Routine	Routine	Routine
<i>PCinsider</i>	0.207** (2.29)	0.241*** (2.60)	0.022 (0.23)	0.084 (0.82)	0.022 (1.26)
<i>Size</i>	0.033*** (13.95)	0.097*** (17.61)	0.005** (2.18)	0.006 (1.11)	-0.007 (-1.51)
<i>BookMarket</i>	0.014*** (5.27)	0.033*** (6.00)	0.005** (2.26)	0.006* (1.84)	0.005 (1.55)
Observations	76,456	75,210	76,456	75,210	85,101
Adjusted R-squared	0.599	0.603	0.628	0.629	0.180
Insider FE	Yes	Yes	Yes	Yes	No
Year FE	No	No	Yes	Yes	Yes
Firm FE	No	Yes	No	Yes	Yes

**Table 6. Difference-in-Difference regressions around the passage of the STOCK Act with time fixed effects**

This table reports the DID regression results of around the passage of the STOCK Act with time fixed effects using CAR[0,30] and CAR[0,60] in Panel A, and CAR[0,120] and CAR[0,255] in Panel B. *Congress* is an indicator variable which equals one if a corporate insider is a US Congress member or staff when the transaction is made. *After* is an indicator variable which equals one if an insider transaction happens after April 2012. *Buy* is an indicator variable which equals one if the transaction is a purchase. *Sell* is an indicator variable which equals one if the transaction is a sale. *Congress* is an indicator variable which equals one if a corporate insider is a US Congress member or staff when the transaction is made. *PastMonthRet* is the raw return over the month  $t-1$  if the transaction happens in month  $t$ . *PastYearRet* is the raw return over the past year from month  $t-2$  to month  $t-12$  if the transaction happens in month  $t$ . *Size* is the natural logarithm of firm market value in \$millions at the end of month  $t$ . *BookMarket* is the Book-to-market ratio at the end of month  $t$ , where book value is from the prior quarter-end. Detailed variable definitions are in Appendix A.

Panel A. CAR[0,30] and CAR[0,60]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,30]	[0,30]	[0,30]	[0,30]	[0,60]	[0,60]	[0,60]	[0,60]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>Congress*After*Buy</i>	-0.728*** (-2.61)	-0.743*** (-2.62)	-0.516** (-2.22)	-0.572** (-2.31)	-0.739*** (-3.11)	-0.741*** (-3.11)	-0.405* (-1.67)	-0.444* (-1.77)
<i>Congress*After*Sell</i>	0.034 (1.26)	0.035 (1.25)	0.012 (0.40)	0.019 (0.71)	0.060*** (2.73)	0.059*** (2.73)	0.062*** (2.72)	0.060*** (2.85)
<i>Congress*Buy</i>	0.428* (1.90)	0.430* (1.88)	0.399* (1.87)	0.436* (1.92)	0.483*** (2.58)	0.483** (2.52)	0.491** (2.03)	0.530** (2.12)
<i>Congress*Sell</i>	-0.023 (-0.85)	-0.024 (-0.86)	0.003 (0.12)	-0.007 (-0.25)	-0.050** (-2.22)	-0.049** (-2.28)	-0.041** (-1.96)	-0.044** (-2.27)
<i>Buy</i>	0.020*** (3.22)	0.021*** (3.23)	0.030*** (5.07)	0.031*** (5.34)	0.021** (1.99)	0.021** (2.02)	0.039*** (4.30)	0.041*** (4.60)
<i>PastMonthRet</i>	-0.032 (-1.25)	-0.033 (-1.28)	-0.029 (-1.04)	-0.039 (-1.37)	-0.038 (-1.28)	-0.039 (-1.30)	-0.048 (-1.38)	-0.059* (-1.67)
<i>PastYearRet</i>	-0.003 (-0.77)	-0.003 (-0.77)	-0.052*** (-6.65)	-0.053*** (-6.79)	-0.005 (-0.80)	-0.005 (-0.80)	-0.100*** (-6.98)	-0.104*** (-7.09)
<i>Size</i>	0.002* (1.69)	0.002* (1.72)	0.001 (0.80)	0.001 (1.10)	0.003 (1.63)	0.003* (1.68)	0.001 (0.56)	0.002 (1.16)
<i>BookMarket</i>	0.003 (0.90)	0.003 (0.88)	0.005 (1.17)	0.005 (1.14)	0.005 (0.93)	0.005 (0.94)	0.006 (0.90)	0.009 (1.22)
Observations	19,853	19,853	19,853	19,853	19,853	19,853	19,853	19,853
Adjusted R-squared	0.060	0.069	0.117	0.124	0.070	0.068	0.161	0.158
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No	No	No	No	No

**Table 6. Difference-in-Difference regressions around the passage of the STOCK Act with time fixed effects (continued)**

Panel B. CAR[0,120] and CAR[0,255]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,120]	[0,120]	[0,120]	[0,120]	[0,255]	[0,255]	[0,255]	[0,255]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>Congress*After*Buy</i>	-1.046***	-1.061***	-0.431	-0.497	-1.382***	-1.393***	-0.131	-0.188
	(-2.85)	(-2.85)	(-1.55)	(-1.58)	(-2.91)	(-2.91)	(-0.49)	(-0.52)
<i>Congress*After*Sell</i>	0.146*	0.150*	0.179***	0.165***	0.334	0.339	0.469**	0.420**
	(1.84)	(1.90)	(4.64)	(3.77)	(1.63)	(1.64)	(2.49)	(2.39)
<i>Congress*Buy</i>	0.433**	0.438**	0.488*	0.543*	0.423**	0.430**	0.581**	0.633*
	(2.03)	(1.99)	(1.76)	(1.73)	(2.32)	(2.29)	(2.21)	(1.77)
<i>Congress*Sell</i>	-0.159*	-0.161**	-0.169***	-0.164***	-0.399*	-0.399*	-0.488***	-0.442**
	(-1.95)	(-1.99)	(-4.33)	(-3.71)	(-1.95)	(-1.94)	(-2.60)	(-2.53)
<i>Buy</i>	0.022	0.023*	0.061***	0.063***	0.017	0.016	0.100**	0.100**
	(1.63)	(1.66)	(3.43)	(3.64)	(0.65)	(0.63)	(2.23)	(2.23)
<i>PastMonthRet</i>	-0.056	-0.055	-0.076	-0.094*	0.011	0.013	-0.047	-0.070
	(-1.36)	(-1.34)	(-1.40)	(-1.74)	(0.18)	(0.23)	(-0.59)	(-0.81)
<i>PastYearRet</i>	-0.001	-0.001	-0.190***	-0.197***	0.001	0.002	-0.401***	-0.413***
	(-0.07)	(-0.06)	(-7.62)	(-7.76)	(0.07)	(0.10)	(-7.58)	(-7.63)
<i>Size</i>	0.008***	0.008***	0.004	0.006*	0.008	0.008	0.001	0.004
	(3.08)	(3.10)	(1.38)	(1.94)	(1.29)	(1.28)	(0.13)	(0.46)
<i>BookMarket</i>	0.017*	0.017*	0.020*	0.024**	0.039*	0.039*	0.042*	0.050**
	(1.96)	(1.96)	(1.78)	(2.10)	(1.86)	(1.82)	(1.79)	(2.25)
Observations	19,853	19,853	19,853	19,853	19,853	19,853	19,853	19,853
Adjusted R-squared	0.068	0.062	0.196	0.195	0.052	0.056	0.248	0.257
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No	No	No	No	No

**Table 7. Difference-in-Difference regressions around the passage of STOCK Act with firm and time fixed effects**

This table reports the DID regression results of around the passage of the STOCK Act with firm and time fixed effects using CAR[0,30] and CAR[0,60] in Panel A, and CAR[0,120] and CAR[0,255] in Panel B. *Congress* is an indicator variable which equals one if a corporate insider is a US Congress member or staff when the transaction is made. *After* is an indicator variable which equals one if an insider transaction happens after April 2012. *Buy* is an indicator variable which equals one if the transaction is a purchase. *Sell* is an indicator variable which equals one if the transaction is a sale. *Congress* is an indicator variable which equals one if a corporate insider is a US Congress member or staff when the transaction is made. *PastMonthRet* is the raw return over the month  $t-1$  if the transaction happens in month  $t$ . *PastYearRet* is the raw return over the past year from month  $t-2$  to month  $t-12$  if the transaction happens in month  $t$ . *Size* is the natural logarithm of firm market value in \$millions at the end of month  $t$ . *BookMarket* is the Book-to-market ratio at the end of month  $t$ , where book value is from the prior quarter-end. Detailed variable definitions are in Appendix A.

Panel A. CAR[0,30] and CAR[0,60]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,30]	[0,30]	[0,30]	[0,30]	[0,60]	[0,60]	[0,60]	[0,60]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>Congress*After*Buy</i>	0.022 (0.82)	0.014 (0.53)	0.050* (1.85)	0.031 (1.08)	-0.090** (-2.24)	-0.108*** (-2.73)	-0.049 (-1.25)	-0.091** (-2.24)
<i>Congress*After*Sell</i>	0.034* (1.81)	0.034* (1.82)	0.042*** (3.00)	0.039*** (2.62)	0.054 (1.36)	0.048 (1.21)	0.072 (1.35)	0.061 (1.27)
<i>Congress*Buy</i>	0.264*** (5.92)	0.265*** (6.02)	0.241*** (4.83)	0.309*** (6.62)	0.752*** (6.71)	0.761*** (6.83)	1.263*** (10.67)	1.232*** (11.08)
<i>Congress*Sell</i>	-0.021 (-1.37)	-0.022 (-1.47)	-0.036*** (-3.48)	-0.035*** (-3.14)	-0.025 (-0.72)	-0.023 (-0.65)	-0.054 (-1.10)	-0.050 (-1.15)
<i>Buy</i>	0.019*** (2.64)	0.019** (2.57)	0.029*** (3.87)	0.030*** (3.97)	0.031*** (3.28)	0.032*** (3.33)	0.050*** (4.43)	0.053*** (4.83)
<i>PastMonthRet</i>	-0.068*** (-2.77)	-0.068*** (-2.79)	-0.050* (-1.81)	-0.059** (-2.12)	-0.086*** (-2.83)	-0.087*** (-2.87)	-0.069** (-1.98)	-0.080** (-2.30)
<i>PastYearRet</i>	-0.012* (-1.74)	-0.012* (-1.74)	-0.056*** (-5.80)	-0.058*** (-5.92)	-0.017 (-1.43)	-0.017 (-1.42)	-0.105*** (-5.56)	-0.109*** (-5.67)
<i>Size</i>	-0.017*** (-3.99)	-0.018*** (-4.01)	-0.022*** (-4.86)	-0.022*** (-4.85)	-0.054*** (-6.14)	-0.054*** (-6.12)	-0.065*** (-5.18)	-0.064*** (-5.03)
<i>BookMarket</i>	0.011* (1.82)	0.011* (1.78)	0.013 (1.62)	0.013 (1.61)	0.011 (1.36)	0.011 (1.38)	0.011 (1.00)	0.015 (1.25)
Observations	19,473	19,473	19,473	19,473	19,473	19,473	19,473	19,473
Adjusted R-squared	0.197	0.206	0.238	0.249	0.239	0.237	0.299	0.301
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes



**Table 7. Difference-in-Difference regressions around the passage of the STOCK Act with firm and time fixed effects (continued)**

Panel B. CAR[0,120] and CAR[0,255]

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,120]	[0,120]	[0,120]	[0,120]	[0,255]	[0,255]	[0,255]	[0,255]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>Congress*After*Buy</i>	0.058 (1.22)	0.053 (1.12)	0.048 (0.93)	-0.001 (-0.02)	0.169*** (2.71)	0.165*** (2.65)	0.120 (1.43)	0.058 (0.70)
<i>Congress*After*Sell</i>	0.106** (2.30)	0.101** (2.16)	0.130 (1.59)	0.126* (1.74)	0.006 (0.07)	0.009 (0.11)	0.071 (0.49)	0.082 (0.58)
<i>Congress*Buy</i>	0.575*** (4.81)	0.614*** (5.05)	1.338*** (9.14)	1.361*** (10.06)	0.817*** (4.88)	0.823*** (5.00)	2.101*** (8.22)	2.152*** (9.62)
<i>Congress*Sell</i>	-0.107** (-2.52)	-0.105** (-2.43)	-0.155** (-2.01)	-0.156** (-2.32)	-0.100 (-1.27)	-0.101 (-1.30)	-0.213 (-1.50)	-0.214 (-1.59)
<i>Buy</i>	0.043*** (2.97)	0.044*** (3.02)	0.082*** (4.57)	0.088*** (4.93)	0.063*** (2.85)	0.063*** (2.85)	0.149*** (4.52)	0.156*** (4.77)
<i>PastMonthRet</i>	-0.128*** (-2.62)	-0.127*** (-2.60)	-0.092* (-1.70)	-0.110** (-2.07)	-0.125** (-2.20)	-0.124** (-2.18)	-0.071 (-1.16)	-0.094 (-1.48)
<i>PastYearRet</i>	-0.015 (-1.18)	-0.015 (-1.17)	-0.190*** (-6.62)	-0.197*** (-6.72)	-0.014 (-0.71)	-0.014 (-0.71)	-0.394*** (-7.07)	-0.406*** (-7.10)
<i>Size</i>	-0.106*** (-7.05)	-0.105*** (-7.07)	-0.124*** (-5.13)	-0.122*** (-4.98)	-0.186*** (-5.05)	-0.185*** (-5.03)	-0.224*** (-3.93)	-0.222*** (-3.75)
<i>BookMarket</i>	0.018 (1.42)	0.018 (1.44)	0.018 (1.18)	0.026 (1.52)	0.052 (1.46)	0.051 (1.45)	0.053 (1.49)	0.066* (1.86)
Observations	19,473	19,473	19,473	19,473	19,473	19,473	19,473	19,473
Adjusted R-squared	0.311	0.306	0.387	0.394	0.428	0.431	0.501	0.517
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

## Appendix A. Variable definitions

Variable Name	Definition
<i>Age</i>	The age of an insider in year $y$ .
<i>After</i>	An indicator variable which equals one if an insider transaction happens after April 2012.
<i>BookMarket</i>	Book-to-market ratio at the end of month $t$ , where book value is from the prior quarter-end.
<i>Buy</i>	An indicator variable which equals one if the transaction is a purchase ( $acqdisp=A$ ).
<i>CAR[0,h] MAR EW</i>	Cumulative abnormal returns over the trading window $[0,h]$ calculated by market-adjusted return against CRSP equally-weighted index.
<i>CAR[0,h] MAR VW</i>	Cumulative abnormal returns over the trading window $[0,h]$ calculated by market-adjusted return against CRSP value-weighted index.
<i>CAR[0,h] MM EW</i>	Cumulative abnormal returns over the trading window $[0,h]$ calculated by the market model against CRSP equally-weighted index. The market model requires the estimation period ends 31 days before the event date and has 255 days in length, with a minimum of four days of trading.
<i>CAR[0,h] MM VW</i>	Cumulative abnormal returns over the trading window $[0,h]$ calculated by the market model against CRSP value-weighted index. The market model requires the estimation period ends 31 days before the event date and has 255 days in length, with a minimum of four days of trading.
<i>CEO</i>	An indicator variable which equals one if any of the four role codes of an insider is CEO.
<i>Congress</i>	An indicator variable which equals one if a corporate insider is a US Congress member or staff when the transaction is made.
<i>CPA</i>	An indicator variable which equals one if an insider has a CPA.
<i>CFA</i>	An indicator variable which equals one if an insider has a CFA.
<i>Director</i>	An indicator variable which equals one if any of the four role codes of an insider is CB, D, DO, H, OD, or VC
<i>HOR</i>	The insider investment horizon measure following Akbas, Jiang, and Koch (2020). I create the insider investment horizon measure ( <i>HOR</i> ) as $HOR_{i,j,y} = \left  \frac{\sum_{y-10}^{y-1} IOF_{i,j,y}}{N} \right $ , where $IOF_{i,j,y}$ is the annual net insider order flow of insider $i$ at firm $j$ in year $y$ , which is calculated by $\frac{P_{i,j,y-S_{i,j,y}}}{P_{i,j,y+S_{i,j,y}}}$ , where $P$ is the number of shares

purchases during year  $y$ ,  $S$  is the number of shares sold, and  $N$  is the number of calendar years the insider traded over the 10 years prior to year  $y$ . An insider is required to have traded in at least two of the past 10 years to be included in the sample.  $HOR$  is then calculated by taking the absolute value of the average of the annual net order flow over the past ten years.

<i>JD</i>	An indicator variable which equals one if an insider has a J.D.
<i>MBA</i>	An indicator variable which equals one if an insider has an MBA.
<i>NetworkSize</i>	The size of an insider's network.
<i>Officer</i>	An indicator variable which equals one if any of the four role codes of an insider is AV, CEO, CFO, CI, CO, CT, EVP, O, OB, OP, OS, OT, OX, P, S, or SVP.
<i>PastMonthRet</i>	Raw return over the month $t-1$ if the transaction happens in month $t$ .
<i>PastYearRet</i>	Raw return over the past year from month $t-2$ to month $t-12$ if the transaction happens in month $t$ .
<i>PCinsider</i>	An indicator variable which equals one if a corporate insider is a current or former member of US Congress, US Department of State, US Executive Office of the President (White House), US Securities and Exchange Commission (SEC), Central Intelligence Agency (CIA), Federal Emergency Management Agency (FEMA), Office of Management and Budget, Internal Revenue Service (IRS), Nuclear Regulatory Commission, United States Social Security Administration, Civil Rights Commission, Food and Drug Administration (FDA), United Nations (UN), presidential campaign, or president's committee or council, or if he or she is a current or former state governor or mayor, when the transaction is made.
<i>PhD</i>	An indicator variable which equals one if an insider has a PhD.
<i>Routine</i>	An indicator variable equals one if an insider $i$ is a routine insider at firm $j$ in year $y$ following Cohen, Malloy, and Pomorski (2012). A routine trader is defined as an insider who placed a trade in the same calendar month for at least three consecutive years, and everyone else is defined as an opportunistic trader. An insider is required to make at least one trade in each of the three preceding years to be defined as either an opportunistic or a routine trader. Once an insider is categorized as a routine insider at firm $j$ in year $y$ , he or she is a routine insider for all subsequent years.
<i>Sell</i>	An indicator variable which equals one if the transaction is a sale ( $acqdisp=D$ ).
<i>Size</i>	Natural logarithm of firm market value in \$millions at the end of month $t$ .
<i>TradeSize</i>	Natural logarithm of insider transaction size in \$millions.

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## Appendix B. Summary statistics of alternative CAR measures

### Panel A. Summary statistics of full sample

Variables	N	Mean	SD	Min	Max
<i>CAR[0,30] MAR VW</i>	1,384,164	0.016	0.179	-2.455	17.784
<i>CAR[0,30] MM EW</i>	1,384,164	-0.007	0.191	-7.068	17.561
<i>CAR[0,30] MM VW</i>	1,384,164	-0.008	0.193	-5.765	17.593
<i>CAR[0,60] MAR VW</i>	1,384,215	0.023	0.25	-2.585	18.306
<i>CAR[0,60] MM EW</i>	1,384,215	-0.022	0.289	-15.488	17.908
<i>CAR[0,60] MM VW</i>	1,384,215	-0.024	0.291	-11.656	17.977
<i>CAR[0,120] MAR VW</i>	1,384,297	0.036	0.356	-3.881	23.74
<i>CAR[0,120] MM EW</i>	1,384,297	-0.048	0.462	-33.399	28.348
<i>CAR[0,120] MM VW</i>	1,384,297	-0.056	0.464	-23.297	19.953
<i>CAR[0,255] MAR VW</i>	1,384,340	0.072	0.534	-7.921	38.656
<i>CAR[0,255] MM EW</i>	1,384,340	-0.106	0.831	-95.335	57.198
<i>CAR[0,255] MM VW</i>	1,384,340	-0.121	0.832	-47.737	37.659

### Panel B. Summary statistics by *PCinsider*

Variables	<b>PCinsider=0</b>					<b>PCinsider=1</b>					<b>Mean(1)-Mean(0)</b>	
	N	Mean	SD	Min	Max	N	Mean	SD	Min	Max	Difference	t-value
<i>CAR[0,30] MAR VW</i>	1,347,633	0.016	0.179	-2.455	17.784	36,531	0.017	0.161	-1.371	2.513	0.001	0.671
<i>CAR[0,30] MM EW</i>	1,347,633	-0.007	0.192	-7.068	17.561	36,531	-0.005	0.175	-1.666	3.654	0.003	2.771
<i>CAR[0,30] MM VW</i>	1,347,633	-0.008	0.194	-5.765	17.593	36,531	-0.005	0.173	-1.574	3.140	0.003	2.758
<i>CAR[0,60] MAR VW</i>	1,347,683	0.023	0.251	-2.585	18.306	36,532	0.026	0.222	-1.688	2.639	0.004	2.778
<i>CAR[0,60] MM EW</i>	1,347,683	-0.022	0.290	-15.488	17.908	36,532	-0.015	0.258	-3.198	7.331	0.007	4.446
<i>CAR[0,60] MM VW</i>	1,347,683	-0.024	0.292	-11.656	17.977	36,532	-0.016	0.253	-2.100	6.475	0.008	5.286
<i>CAR[0,120] MAR VW</i>	1,347,765	0.036	0.357	-3.881	23.740	36,532	0.043	0.323	-2.609	6.852	0.007	3.621
<i>CAR[0,120] MM EW</i>	1,347,765	-0.049	0.463	-33.399	28.348	36,532	-0.038	0.411	-5.009	16.631	0.011	4.479
<i>CAR[0,120] MM VW</i>	1,347,765	-0.056	0.466	-23.297	19.953	36,532	-0.042	0.403	-4.230	13.395	0.014	5.746
<i>CAR[0,255] MAR VW</i>	1,347,808	0.072	0.536	-7.921	38.656	36,532	0.073	0.485	-4.004	8.225	0.001	0.207
<i>CAR[0,255] MM EW</i>	1,347,808	-0.106	0.833	-95.335	57.198	36,532	-0.093	0.729	-10.981	30.665	0.012	2.828

## Appendix C. Matched sample analysis

This table reports the regression results of politically connected insider transactions and subsequent returns in the matched sample. A transaction made by a PC insider is matched to five same-type (purchase or sale) transactions made by non-PC insiders from the same firm in the same year with the nearest trade size. Panel A and Panel B report the results with year-month fixed effects. Panel C and Panel D report the results with year-month fixed effects and firm fixed effects. *PCinsider* is an indicator variable which equals one if a corporate insider is a current or former member of government agencies. *Buy* is an indicator variable which equals one if the transaction is a purchase. *Sell* is an indicator variable which equals one if the transaction is a sale. *PastMonthRet* is the raw return over the month  $t-1$  if the transaction happens in month  $t$ . *PastYearRet* is the raw return over the past year from month  $t-2$  to month  $t-12$  if the transaction happens in month  $t$ . *Size* is the natural logarithm of firm market value in \$millions at the end of month  $t$ . *BookMarket* is the Book-to-market ratio at the end of month  $t$ , where book value is from the prior quarter-end. Detailed variable definitions are in Appendix A.

Panel A. CAR[0,30] and CAR[0,60] with year-month fixed effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,30]	[0,30]	[0,30]	[0,30]	[0,60]	[0,60]	[0,60]	[0,60]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	-0.007*	-0.007*	-0.005	-0.007*	-0.002	-0.002	-0.001	-0.002
	(-1.91)	(-1.89)	(-1.41)	(-1.71)	(-0.38)	(-0.32)	(-0.26)	(-0.32)
<i>PCinsider*Sell</i>	0.000	0.000	0.002	0.003	-0.000	-0.001	0.004	0.004
	(0.08)	(0.09)	(0.65)	(0.96)	(-0.11)	(-0.17)	(1.11)	(1.29)
<i>Buy</i>	0.013***	0.012**	0.049***	0.049***	0.009	0.008	0.081***	0.080***
	(2.59)	(2.41)	(7.42)	(7.29)	(1.06)	(0.94)	(7.18)	(6.94)
<i>PastMonthRet</i>	-0.078***	-0.079***	-0.095***	-0.098***	-0.039	-0.040	-0.071	-0.076*
	(-2.86)	(-2.86)	(-3.69)	(-3.48)	(-0.94)	(-0.96)	(-1.63)	(-1.65)
<i>PastYearRet</i>	0.003*	0.003*	-0.014*	-0.015*	0.004*	0.004	-0.029*	-0.031*
	(1.88)	(1.84)	(-1.71)	(-1.74)	(1.65)	(1.62)	(-1.78)	(-1.79)
<i>Size</i>	-0.001	-0.001	0.001	0.001	-0.003*	-0.003*	0.001	0.001
	(-1.40)	(-1.47)	(0.68)	(0.72)	(-1.77)	(-1.79)	(0.65)	(0.66)
<i>BookMarket</i>	0.005	0.005	0.012***	0.013***	0.005	0.005	0.016***	0.019***
	(1.40)	(1.49)	(3.04)	(3.22)	(1.14)	(1.21)	(3.06)	(3.36)
Observations	141,760	141,760	141,760	141,760	141,760	141,760	141,760	141,760
Adjusted R-squared	0.077	0.081	0.133	0.131	0.083	0.094	0.151	0.155
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No	No	No	No	No

### Appendix C. Matched sample analysis (continued)

Panel B. CAR[0,120] and CAR[0,255] with year-month fixed effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,120]	[0,120]	[0,120]	[0,120]	[0,255]	[0,255]	[0,255]	[0,255]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	0.008	0.009	0.005	0.006	0.008	0.008	-0.003	-0.000
	(1.39)	(1.45)	(0.73)	(0.81)	(1.11)	(1.10)	(-0.26)	(-0.04)
<i>PCinsider*Sell</i>	-0.004	-0.004	0.004	0.005	-0.008	-0.008	0.008	0.011
	(-0.92)	(-0.91)	(0.97)	(1.18)	(-0.97)	(-1.02)	(0.99)	(1.28)
<i>Buy</i>	-0.004	-0.005	0.136***	0.137***	0.002	0.002	0.291***	0.295***
	(-0.28)	(-0.33)	(6.51)	(6.44)	(0.10)	(0.09)	(6.99)	(6.95)
<i>PastMonthRet</i>	-0.057	-0.057	-0.120**	-0.129**	-0.073	-0.073	-0.200***	-0.208***
	(-1.16)	(-1.17)	(-2.14)	(-2.26)	(-1.24)	(-1.24)	(-2.61)	(-2.66)
<i>PastYearRet</i>	0.011**	0.011**	-0.056*	-0.060*	0.006	0.006	-0.134*	-0.141*
	(2.00)	(1.97)	(-1.77)	(-1.77)	(0.89)	(0.88)	(-1.83)	(-1.83)
<i>Size</i>	-0.003	-0.003	0.003	0.004	-0.007	-0.007	0.004	0.008
	(-1.20)	(-1.22)	(0.83)	(1.24)	(-1.33)	(-1.30)	(0.64)	(1.17)
<i>BookMarket</i>	0.013	0.013*	0.034***	0.040***	0.031	0.031	0.071***	0.081***
	(1.61)	(1.66)	(3.40)	(3.69)	(1.29)	(1.27)	(3.54)	(4.01)
Observations	141,760	141,760	141,760	141,760	141,760	141,760	141,760	141,760
Adjusted R-squared	0.082	0.081	0.167	0.173	0.095	0.080	0.215	0.235
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No	No	No	No	No

### Appendix C. Matched sample analysis (continued)

Panel C. CAR[0,30] and CAR[0,60] with year-month and firm fixed effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,30]	[0,30]	[0,30]	[0,30]	[0,60]	[0,60]	[0,60]	[0,60]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	-0.011*** (-3.15)	-0.011*** (-3.12)	-0.010*** (-2.78)	-0.011*** (-3.02)	-0.007 (-1.64)	-0.007 (-1.59)	-0.007 (-1.43)	-0.008 (-1.56)
<i>PCinsider*Sell</i>	0.002 (0.50)	0.002 (0.54)	0.003 (0.80)	0.003 (1.08)	0.002 (0.66)	0.002 (0.57)	0.005 (1.47)	0.005* (1.65)
<i>Buy</i>	0.033*** (4.61)	0.033*** (4.55)	0.071*** (6.90)	0.071*** (7.04)	0.030** (2.54)	0.029** (2.49)	0.102*** (5.97)	0.102*** (6.22)
<i>PastMonthRet</i>	-0.069*** (-3.36)	-0.068*** (-3.43)	-0.061*** (-2.88)	-0.058*** (-2.70)	-0.035 (-1.24)	-0.036 (-1.27)	-0.020 (-0.64)	-0.018 (-0.57)
<i>PastYearRet</i>	0.000 (0.11)	0.000 (0.08)	-0.013 (-1.60)	-0.013 (-1.61)	-0.001 (-0.32)	-0.001 (-0.35)	-0.025* (-1.66)	-0.026* (-1.67)
<i>Size</i>	-0.024*** (-5.89)	-0.023*** (-5.72)	-0.035*** (-6.57)	-0.036*** (-6.22)	-0.068*** (-8.16)	-0.068*** (-8.09)	-0.085*** (-7.15)	-0.088*** (-6.96)
<i>BookMarket</i>	0.005 (1.07)	0.005 (1.06)	0.008 (1.52)	0.009 (1.63)	0.003 (0.41)	0.003 (0.44)	0.008 (0.94)	0.010 (1.14)
Observations	141,746	141,746	141,746	141,746	141,746	141,746	141,746	141,746
Adjusted R-squared	0.239	0.243	0.285	0.285	0.307	0.314	0.349	0.359
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

### Appendix C. Matched sample analysis (continued)

Panel D. CAR[0,120] and CAR[0,255] with year-month and firm fixed effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	[0,120]	[0,120]	[0,120]	[0,120]	[0,255]	[0,255]	[0,255]	[0,255]
	MAR EW	MAR VW	MM EW	MM VW	MAR EW	MAR VW	MM EW	MM VW
<i>PCinsider*Buy</i>	0.001	0.001	-0.003	-0.003	-0.005	-0.005	-0.018*	-0.016*
	(0.10)	(0.16)	(-0.49)	(-0.49)	(-0.80)	(-0.83)	(-1.78)	(-1.65)
<i>PCinsider*Sell</i>	-0.002	-0.002	0.004	0.004	-0.007	-0.007	0.005	0.006
	(-0.48)	(-0.47)	(1.02)	(1.21)	(-1.02)	(-1.08)	(0.67)	(0.89)
<i>Buy</i>	0.014	0.013	0.157***	0.157***	0.031	0.030	0.317***	0.320***
	(0.63)	(0.61)	(4.92)	(5.20)	(0.86)	(0.85)	(5.90)	(6.06)
<i>PastMonthRet</i>	-0.063	-0.061	-0.023	-0.022	-0.040	-0.041	0.037	0.049
	(-1.61)	(-1.59)	(-0.53)	(-0.50)	(-0.85)	(-0.88)	(0.65)	(0.78)
<i>PastYearRet</i>	0.004	0.003	-0.045*	-0.047*	0.001	0.001	-0.100*	-0.104*
	(1.02)	(0.97)	(-1.68)	(-1.68)	(0.16)	(0.15)	(-1.77)	(-1.77)
<i>Size</i>	-0.134***	-0.134***	-0.170***	-0.173***	-0.253***	-0.253***	-0.327***	-0.332***
	(-8.24)	(-8.23)	(-7.04)	(-6.94)	(-7.33)	(-7.33)	(-6.32)	(-6.21)
<i>BookMarket</i>	0.005	0.005	0.015	0.020	0.011	0.011	0.030	0.040
	(0.45)	(0.45)	(0.93)	(1.18)	(0.33)	(0.32)	(0.96)	(1.22)
Observations	141,746	141,746	141,746	141,746	141,746	141,746	141,746	141,746
Adjusted R-squared	0.376	0.376	0.420	0.434	0.529	0.522	0.538	0.559
Year-Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes