Double Signals or Single Signal?
An Investigation of Insider Trading Around Share Repurchases

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Summary

This study makes use of the insider trading data around the repurchasing period in order to examine the information signaling motivation for share repurchases in Hong Kong. Analyses are performed to investigate the intensity of the insider trading activity and share price reaction during the time when the firms buy their shares back. The directors do not exclusively make a purchase decision for their own investment portfolios to complement the buy-back transactions of the firms, they also make sell transactions. Although the quantity and value of directors' purchases are higher than those of sales, the intensity of buying activity is not abnormally greater than that of the selling activity during the share repurchase period. The results from the event study provide support for the information signaling hypothesis that the "Buy" signal earns positive abnormal returns. The market does not evaluate the various signals of informed trading in isolation. Although, the "Buy" signal can perform its signaling function to express an undervaluation message, the higher abnormal returns for the "Repurchase Only" subsample suggest that the "Repurchase" signal of the firms is a more credible signal for undervaluation than the "Purchase" signal of the directors. This study provides weak evidence for the information signaling purpose of share repurchases. It is assumed that there should be a consistent signal conveyed by share repurchases and directors' dealings (i.e., a share repurchase with a director purchase rather than a share repurchase with a director sale) in order to transmit a credible undervaluation message.