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INSIDER TRADING AROUND HOSPITALITY ACQUISITION ANNOUNCEMENTS

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ABSTRACT

Despite the debate over the level of market efficiency in financial markets and the importance of information asymmetry, little research has been conducted in the hospitality industry regarding the process of insider trading. Hospitality acquisition announcements provide a particularly interesting opportunity to explore how the private information of insiders is conveyed to stock prices.

If an acquiring firm’s managers (insiders) have knowledge that their firm is overvalued (and anticipate that their shares will underperform after the acquisition), they may propose a stock-financed acquisition. In such a situation, insiders may also try to earn abnormal personal profits by selling some of their private holdings of the firm’s securities before the acquisition announcement. If insiders perceive their firm’s shares as undervalued, they may propose an all cash acquisition and try to purchase shares prior to the acquisition announcement. If insiders perceive their firm’s shares as fairly valued, they may propose a mixed (cash plus stock) financed acquisition and may not make abnormal sales or purchases prior to the acquisition announcement.

The findings on insider trading do not consistently support the theory that insiders in hospitality firms invariably use their private information to maximize their private benefits prior to acquisition payment announcements. For hospitality acquiring firms using stock or cash financing, insider trading did not result in significant abnormal transactions in the four quarters prior to acquisition payment announcements. For hospitality acquirers using mixed financing, abnormal insider sales are positive and significant. The lack of significant results for the all cash or stock payment announcements may reflect a maximizing of managerial control or compensation.