Overview of Results (part I)

- A key concern by practitioners is that insiders who pre-announce their trades may manipulate the stock price.
- However, if the insider obtains utility solely from the consumption of the financial asset, this concern is not well grounded.
- To explain why this is so, we derive an equilibrium solution that has a near-universal appeal. The solution is independent of:
  - the properties of the asset's fundamental
  - the number of trading dates
  - whether the insider is systematically informed about the realization of the fundamental
  - how much the insider can trade or how much the regulator allows him to trade at each date
- Not only do price responses to any sequence of pre-announced trades make market manipulation too costly for the insider, but there is also no way for the insider to profit from his information advantage.

Overview of Results (part II)

- An equilibrium exists in which the pre-announcement mechanism prevents the insider from trading.
- However, alternative equilibria may also exist.
- In one of these alternative equilibria, the insider does not trade unless he is privately informed about an upcoming state of boom for the company—defined as the highest possible realization of the company's value—in which case the insider submits an initial buy order that pushes the company's stock price upwards at no cost.
- This equilibrium holds for an insider who marginally prefers a high stock price to a low stock price.
- Because insiders’ preferences for a high price over a low price may be more than just marginal, we also consider an insider who obtains extra utility both from the consumption of the financial asset and from supporting relatively high if not very high price levels.
- An example explains that the pre-announcement mechanism may cause this insider to undertake uninformed manipulations.

Selected References