December 10, 2012, 4:00 PM

Do Hedge Funds Manipulate Stock Prices?

By Daniel Akst

It certainly looks like it, at least according to a quartet of professors who studied hedge fund data from 2000 to 2010 in order to produce a recent paper on the subject. The funds' motivation? Some fund managers apparently want to make themselves look more succcessful than they are. And some can boost their compensation while they're at it.

The professors write plainly about their findings:

> We document that stocks held by hedge funds experience on average large abnormal returns on the last trading day of the month. This effect is statistically and economically significant: stocks at the top quartile of hedge fund ownership earn, on average, an abnormal return of 0.30% on the last day of the quarter, most of which reverts the next day. This effect is similar in magnitude to the 0.25% end- of-quarter manipulation by mutual funds documented by Carhart, Kaniel, Musto, and Reed (2002). Moreover, about half of the average increase in the prices of stocks that are owned by hedge funds takes place in the last twenty minutes of trading, and reverts in the first ten minutes of trading on the following day.

The professors go further:

> We show that high-hedge-fund-ownership stocks experience a surge in buying pressure in the last two hours of the quarter, and a strong selling pressure during the first day of following quarter. Also, we find that these stocks exhibit an abnormally high turnover during the last hours of the last day of the quarter and during the first hours of the first day of the following quarter.

The paper, slated for publication in the Journal of Finance, is by Itzhak Ben-David, Francesco Franzoni, Augustin Landier and Rabih Moussawi.

Chime in, dear readers. Anybody out there shocked by this?

Economics, Hedge Funds, Stocks

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ein vogel frei wrote :

so like many accounting gimmicks, the juice you gain in the current period, has to get reversed the next day and you start the new period in the hole. After the 1st time, every reporting period after that just has a false negative on day 1 and a false positive at the end, that more-or-less cancel each other. Foolish.

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SP Kothari wrote :

Purely from a statistical standpoint (i.e., without commenting on the appropriateness of the practice), wouldn't the bias be close to zero if a hedge fund's opening and closing position are both biased upward because of the end of the quarter late trading practice?