

Do Hedge Funds Manipulate Stock Prices?
Augustin Landier (TSE)

Abstract:

We find evidence of significant price manipulation at the stock level by hedge funds on critical reporting dates. We document that stocks held by hedge funds first experience higher returns on the last day of the quarter, followed by a reversal the next day. E.g., the stocks in the top quartile of hedge fund holdings exhibit abnormal returns of 30 basis points in the last day of the month and a reversal of 25 basis points in the following day. Using intraday data, we show that a significant part of the return is earned during the last minutes of the last day of the month, at an increasing rate towards the closing bell. This evidence is consistent with hedge funds' incentive to inflate their monthly performance by buying stocks that they hold in their portfolios. Higher manipulations occur with funds that have higher incentives to improve their ranking relative to their peers and a lower cost of doing so.