2016

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Journal of Empirical Finance

Volume 38, Part A

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Abstract

We find that stocks with fails-to-deliver (FTDs) experience negative abnormal returns that are proportional to their FTD levels. These findings come from both an event study and a portfolio returns analysis using Fama-French factors. Using proprietary data on stock borrow costs, we also show that short sellers of low and high FTD stocks obtain positive estimated profits. Our findings support the hypothesis that FTDs reflect nonbinding short sale constraints which do not restrict informed short selling.

Recommended Citation

Stratmann, Thomas and John W. Welborn. "Informed short selling, fails-to-deliver, and abnormal returns." *Journal of Empirical Finance* 38, Part A (2016): 81-102.