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Insider trading and the STOCK Act Amendment

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Abstract:

On April 2, 2012, Congress passed the Stop Trading on Congressional Knowledge (STOCK) Act. The purpose of this legislation was to enhance transparency among the financial investments of Congress members, congressional staffers, and other government employees. One year later, an amendment was passed which no longer required staffers or government employees to publish their holdings online citing "national security". Treating this event as a natural experiment, I examine whether insider trading occurred in the days leading up to and through the signing of the law by President Obama. In general, I find that portfolios of the 50 most commonly held stocks by Congress significantly outperformed the market in the days leading up to the amendment. Additionally, I find that political affiliation and the number/amount of congressional holdings provided no meaningful impact on these returns.

1. INTRODUCTION

"Power is a lot like real estate. It's all about location, location, location. The closer you are to the source, the higher your property value."

-Frank Underwood, House of Cards

During much of 2017, the approval rating of the U.S. Congress was below 20%.[1] While this lack of approval might be explained by perceived inability to enact meaningful changes, a 2015 Gallup poll showed that more than 50% of those surveyed believed that most members of congress were corrupt. To compound this issue, academic research in finance shows that portfolios that mimic those of congressional holdings tend to outperform the market by 6% to 10% per year. In an effort to constrain members of congress from trading on privileged information, the Obama Administration passed the Stop Trading on Congressional Knowledge (STOCK) Act on April 4th, 2012 following two months of heated debate in both chambers of legislature. The purpose of the Act was to prevent "any nonpublic information derived from individual's position…or gained from performance of the individual's duties, for personal benefit[2]." The Act required all United States Congressmen, Congressional employees, and employees of the Executive and Judicial Branches to publically disclose 1) their financial holdings at the end of each calendar year and 2) large stock trades within 45 days throughout the year.

[1] See, for example, http://news.gallup.com/poll/1600/congress-public.aspx.
[2] See Restrictions on Insider Trading Under Securities Laws and Ethics Rules, United States Senate, December 4, 2012, 1-2.

Prior to the STOCK Act, *The Senate Code of Official Conduct* and *The Ethics Manual for Members, Officers, and Employees of the U.S. House of Representatives* did not place any restrictions on trading acquisitions. As mentioned above, prior research has shown portfolios that mimic U.S. Senators beat the market by approximately 10% annually (Ziobrowski, Cheng, Boyd, and Ziobrowski (2004)) and investments of members of the U.S. House of Representatives outperform the market by approximately 6% annually (Ziobrowski, Boyd, Cheng, and Ziobrowski (2011)). While these returns do not explicitly demonstrate the prevalence of immoral behavior, they do, however, cause one to question the integrity of the system.

The following year on April 11th, 2013, however, the Senate passed an amendment to the bill which exempted those previously affected by the requirement from the duty of posting their investments online. This amendment was passed unanimously and without discussion in 14 seconds right before the weekend. The House followed suit on April 12th, 2013 and President Obama signed the bill into law on April 15th, 2013. The National Academy of Public Administration would later cite that the amendment was necessary since the disclosure requirements could compromise "national security". The only place to access these records became the basement of the Cannon House Office Building in Washington D.C., far from the transparency previously sought after. This event provides a natural experiment for the examination of potential insider trading in the weeks preceding and through the amendment passage. While the first bill was debated openly, the amendment was passed quickly and efficiently into law with little to no coverage.

Previous examination of the STOCK Act has found that bid-ask spreads widened and volatility increased in response to the amendment, suggesting increased information asymmetry (Blau and Whitby (2015)). Using the 50 most held stocks by Congress (both in years 2012 and

2013), I examine stock returns for various time-windows surrounding the amendment passage. The question I am attempting to answer is whether the relaxation of disclosure laws by the 2013 STOCK amendment could lead to a perceived increase in insider trading among the most commonly held stocks by members of Congress. My hypothesis is that congressional leaders have additional access to non-public information, and can therefore make more informed and more profitable investment decisions. The easing of laws for those who are "located closer to the source", such as Congressional staffers and members of the other branches of government, could result in increased outflow of information captured by security prices, which may be good news for stocks most held by members of Congress. The results show that Cumulative Abnormal Returns (CARs) leading up to the election are significant and outperform the market by between 1-2%, which is equivalent to over 70% annualized. The statistical significance of these returns then tails off following the signing of the bill. This result is not surprising considering that the bill passed both chambers 3-4 days before the bill was signed into law. Additionally, other exogenous events may be effecting the statistical significance of the returns, mainly the Boston Marathon Bombing which occurred on the day President Obama signed the bill into law. However, finding abnormal returns during the pre-event period suggests that the Marathon Bombing is not confounding the first set of my tests. For robustness, I replicate the CARs using both the Scholes Williams and Market-Adjusted Return models using both Equal and Value weighted indices. Next, I perform a regression to estimate if partisanship was influential in driving the pre-event CARs. A variable was created using the number of Republican Congressman invested in a particular stock divided by the number Democratic Congressman, holding a variety of variables constant. The variable was found to be significant in the regression. The interpretation of the variable is that as the number of Republicans invested in a

company rises, the expected return decreases, though only slightly. Finally, I replicated the same regression, this time, however, looking at whether the investment amount of the Congressional member was significant in the return and found the variable to be insignificant.

The rest of this paper follows. Section 2 describes the data used throughout the analysis. Section 3 presents the results from our empirical tests. Section 4 provides some concluding remarks.

2. DATA

In order to examine whether the amendment to the STOCK Act stimulated insider trading, I gathered stock returns for windows leading up to and through the amendment to the law from the Center for Research in Securities Prices (CRSP) database. I constructed two portfolios of the 50 most commonly held stocks by members of Congress as reported by the Center for Responsive Politics (CRP). Table 1, Panels A and B, report the stocks for the year end 2012 and 2013 along with the number of individuals from each political party invested in each security.[3] Additionally, members of Congress are not required to post a specific amount invested in each stock, but an investment window. I report the summation of the minimum investment windows as provided by the CRP. The 2012 and 2013 portfolios are very similar with only a handful of exceptions demonstrating that Congressional members likely preferred longer buy and hold strategies. This supports the reasoning for use of 2012 and 2013 year-end snapshots of Congressional portfolios.

[3] Unfortunately, data regarding Congressional holdings at the time of the amendment is unavailable. Therefore, I conduct my analysis for both 2012 and then for 2013 holdings.

Table 2 provides the summary statistics for the 2012 and 2013 portfolio of the 50 most commonly held stocks by Congress. The companies have an average stock price of $86.36, as well as Market Capitalizations ranging from $29-$394 billion, with an average of $134.62 billion. I find that these investments tend to be highly established, blue-chip firms that are also highly regulated. The trading volume, spread, and volatility of these investments follow the trend of blue-chip stocks. The variable NASDAQ was created as a dummy variable equal to one if the stock is listed on the NASDAQ, and 0 if otherwise. This result shows that 25% of the stocks in the portfolio are listed on the NASDAQ.

3. RESULTS

To begin the analysis, I first examine the CARs for the two portfolios of stocks held by Congress. Both portfolios are comprised of the 50 most commonly held stocks held by Congress. The first portfolio reported at the end of 2012, the second reported at the end of the following year, 2013. The event in question took place on April 15th, 2013. The minimal differences between the two datasets suggests that Congressional members tended to hold these securities for longer than a year—possibly as part of a buy and hold strategy and likely in order to capture tax advantages of the capital gains tax rate. I note that while the original STOCK Act was debated for months leading up to the final signing of the bill into law, the amendment was passed in a relatively short time-span with little to no discussion. While the effects of insider trading would be difficult to capture significantly over a larger time-span, I posit that this provides a natural experiment to examine insider trading in the days leading up to and through the passage of the amendment.

3.1 The Effect of the STOCK Act Amendment Pre-Post Period

In Table 3, Panels A and B, I examine the CARs for the days surrounding the amendment. Captured in the (-1,1) window is the voting that took place on April 11th and 12th in both chambers of Congress, and before the Act was signed into law. Additionally, the days following the amendment passage may be influenced by the Boston Marathon Bombing, although that event would affect the entire market as opposed to the treatment sample of stocks that are most held by Congress. Panel A displays the results for the 2012 congressional holdings and Panel B for the 2013 congressional holdings. I begin with the shortest timespan and then report my findings by increasing each CAR time window. For the (-1,1) time period, I find a positive CAR of 1.30% for the time period, or over 100% annualized. These returns are significant at the .05 level for the Market Model [1] (MM), the Market-Adjusted Returns Model [2] (MAR) and the Scholes Williams Model [3] (SW) for both the 2012 and the 2013 holdings. As I move down Table 3 Panels A and B, I increase the CAR windows as to capture a larger time period. While the statistical significance holds for the Columns 1-2, it tails off for Columns 3-6. Furthermore, the reported calculated return can be interpreted as a return over the time period, so although CAR(-5,5) and CAR(-30,2) have a larger return than CAR(-1,1), the annualized return is much smaller.

3.2 The Effect of the STOCK Act Amendment Pre-Period and Post-Period

In Table 4 Panels A and B, I examine CARs in the days prior to the passage of the amendment. CAR(-5,0), CAR(-3,0), and CAR(-1,0) took place in the same week that the amendment was passed in both chambers, and maintained the highest statistical significance across the treatment groups. This conclusion is not surprising due to the nature of the event. Congress approved the bill in 14 seconds with little to no discussion. This also occurred at a time

of extreme deadlock between parties. It is reasonable to assume that those affected would be aware of the amendment and likelihood of passing before the event took place. These results suggest that non-public information began to be incorporated into stock returns before the bill was signed into law. These results are consistent through both the 2012 and the 2013 holdings and for models using the equal weighted index as the benchmark. I note, however, the results are not consistent for models using the value weighted index. These results suggest that the observed positive CARs surrounding the amendment are abnormally high during the period before the amendment is passed. Given the prior research that shows that portfolios consisting of stocks most held by Congress exhibit positive alpha, finding that the amendment that relaxes the trading constraints of Congressional Staffers results in abnormally high returns is straightforward and suggests that the amendment is "good news" for our treatment sample of stocks. Furthermore, and perhaps more importantly, findings indicate that the results are driven by the pre-amendment period, which is perhaps the result of exogenous factors that took place after the signing of the bill.

Table 5 examines the effects on the CARs that took place after the bill was signed into law. I find lessening statistical significance beyond CAR(0,1), likely due to exogenous factors such as the Boston Marathon Bombing which occurred on the same day that the bill was signed. CAR(0,3) and CAR(0,5) are not reliably different from zero for any of the models. This suggests that in the same week the bill was signed, the information held by insiders had already become incorporated into the share price of the stocks just three days after Obama signed the bill.

3.3 Partisanship in the STOCK Act

In this section, I test whether the abnormal returns found during the pre-amendment period are driven by a particular party affiliation. CAR(-5,0) was selected as the dependent, or left-side variable because it yielded the most statistically significant CAR in Tables 3-5.

$$CAR(-5,0)_i = \beta_1 Ln(Repub/Dem)_i + \beta_2 Ln(Price_i) + \beta_3 Ln(MarketCap_i) + \beta_4 Ln(Spread_i) + \beta_5 Ln(Illiquidity_i) + \beta_6 Ln(Volatility_i) + \beta_7 Ln(Turnover)_) + \beta_8 NASDAQ_i + \alpha + \varepsilon_i$$

As shown in Table 4, CAR(-5,0) displayed p-values below the .01 level for many of the models estimated. For Tables 6-7, the independent variable was chosen as the natural log of the number of Congressional Republicans invested in a particular stock divided by the number of Democrats as reported in Table 1. Table 5 shows that the variable for Repub/Dem, MarketCap, Spread, Illiquidity, and Turnover were significant at the .05 level in Columns 1-4. Interestingly, only Illiquidity was significant in Table 6 for the 2013 data set. The CAR(-5,0) in the 2013 data set were far more significant than for the 2012, suggesting that the excess returns may be explained by insider trading, assuming that the 2013 dataset is more accurate. While the t statistic in Table 5 Columns 1-4 is significant at the .05 level for Ln(Repub/Dem), the coefficient is small enough as to render the effect partisanship has on CAR(-5,0) meaningless. In conclusion, the results suggest that whether the Congressional representative investing in the company was Republican or Democratic does not meaningfully explain CAR(-5,0).

Next, I conducted a similar regression on the significance of the minimum reported investment in the explanation of the abnormal return for CAR(-5,0) in Tables 8-9. The variable for Ln(Repub/Dem) in Tables 6-7 was replaced with Ln(MinInvest) in the cross-sectional regressions. Ln(MinInvest) is the summation of the minimum amount of investment reported for each security in Tables 1.

$$CAR(-5,0)_i = \beta_1 Ln(MinInvest)_i + \beta_2 Ln(Price_i) + \beta_3 Ln(MarketCap_i) + \beta_4 Ln(Spread_i) + \beta_5 Ln(Illiquidity_i) + \beta_6 Ln(Volatility_i) + \beta_7 Ln(Turnover)_i + \beta_8 NASDAQ_i + \alpha + \varepsilon_i$$

Congress is required to disclose a window for which the security is valued at the time of the report. These windows were summated by political party and reported in Table 1. The control variables proved equally significant in Tables 6-7, with the exception of the independent variable, Ln(MinInvest). The findings suggest that the amount of investment for which the member of Congress have invested in the stock is not significant in explaining CAR(-5,0). We are left to conclude that while the returns are abnormally high for stocks most held by Congress surrounding the amendment, the results are not driven by the amount of investment by members of Congress.

3.4 Explanation of Control Variables

Due to the differences between the specified treatment group of 50 stocks selected by Congressional representatives, seven control variables were created for the regression. Ln(Price) is the natural log of the price of all the securities in the data set. Ln(MarketCap) is calculated as the price per share times shares outstanding for each security. Ln(Spread) is the difference between the Bid and Ask price. Ln(Illiquidity) is a measure of liquidity calculated by the absolute value of return divided by volume times price. Ln(Volatility) is the natural log of the difference between the daily high ask price to low bid price. Ln(Turnover) is calculated as volume divided by shares outstanding. NASDAQ was created as a dummy variable where the value was set as 1 if the stock was listed on the NASDAQ or 0 if listed otherwise.

4. CONCLUSION

On April 15, 2013, President Obama signed an amendment to the Stop Trading on Congressional Knowledge (STOCK) Act which eliminated many of the disclosure requirements

that had been implemented only one year prior. I examine whether insider trading took place in the days surrounding this event by observing stock returns of the 50 most commonly held stocks by Congress. I then compare these returns in an attempt to extrapolate whether insider trading took place by examining price movements.

Throughout the analysis, I use stock data from Center for Research in Securities Prices and Congressional investment data from the Center for Responsive Politics. Findings indicate that in the days leading up to the amendment, the 50 common stocks most held by Congress outperform the market by 1.11%.to 1.68%, depending on the models estimated. This is equivalent to 55.94% to 84.67% annualized. This trend quickly dissipates following the signing of the bill. I estimate that this dissipation is due to the nature of the amendment passage. The amendment passed both houses in 14 seconds with no discussion. It is reasonable to conclude that those who were affected by the STOCK Act were aware of the amendment and its likelihood of passing before the actual vote took place. Although the political party is statistically significant in the regression of CAR(-5,0), the coefficient on the statistic is minimal as to render the interpretation meaningless. I find the minimum investment window to be insignificant in explaining CAR(-5,0). This suggests that CAR(-5,0) is meaningful regardless of political party or amount of investment.

5. REFERENCES

Blau, Ben. Ryan Whitby, 2015. Potential Insider Trading by Regulators and the Quality of Financial Markets. Working Paper.

Ziobrowski, Alan J., Ping Cheng, James W. Boyd, and Brigitte J. Ziobrowski, 2004. Abnormal returns from the common stock investments of the U.S. Senate. Journal of Financial and Quantitative Analysis 39, 661-676

Ziobrowski, Alan J., James W. Boyd, Ping Cheng, and Brigitte J. Ziobrowski, 2011. Abnormal returns from the common stock investments of members of U.S. House of Representatives. Business and Politics 13, 1-21.

Table 1 Panel A-2012 Treatment Sample of Stocks with Highest Level of Congressional Holdings

The table reports the ticker symbols, the number of members of the U.S. Congress holding the particular stock, the number of Congressional Democrats holding the particular stock, the number of Congressional Republicans holding the particular stock, the minimum investment by Democrats, and the minimum investment by Republicans.

Ticker	Company Name	All Congress	Number of Democrats	Number of Republicans	Democratic Investment	Republican Investment
	[1]	[2]	[3]	[4]	[5]	[6]
GE	General Electric	84	38	45	$927,777	$2,211,661
PG	Procter & Gamble	69	31	37	$751,909	$7,605,325
MSFT	Microsoft Corp	65	32	33	$1,759,463	$1,869,722
WFC	Wells Fargo	63	28	35	$728,254	$1,418,476
AAPL	Apple Inc	62	30	31	$2,342,043	$2,185,006
XOM	Exxon Mobil	55	18	36	$2,107,687	$3,427,108
JPM	JPMorgan Chase & Co	55	24	31	$2,363,864	$980,670
CSCO	Cisco Systems	52	22	29	$138,249	$493,584
INTL	Intel Corp	50	25	25	$179,432	$625,452
JNJ	Johnson & Johnson	49	19	29	$637,508	$1,449,288
T	AT&T Inc	49	15	34	$118,020	$1,508,383
IBM	IBM Corp	48	21	26	$1,178,944	$1,853,872
PFE	Pfizer Inc	47	19	28	$303,420	$1,288,123
KO	Coca-Cola Co	46	19	27	$460,714	$2,017,631
PEP	PepsiCo Inc	46	20	25	$1,324,874	$1,419,010
CVX	Chevron Corp	45	17	28	$476,815	$2,882,511
VZ	Verizon Communications	43	16	27	$120,022	$708,012
BAC	Bank of America	41	16	25	$107,138	$846,320
DIS	Walt Disney Co	40	23	16	$302,958	$148,535
MCD	McDonald's Corp	40	18	22	$356,817	$952,664
QCOM	Qualcomm Inc	38	17	20	$397,903	$1,216,722
GLD	SPDR Gold Trust ETF	37	14	22	$173,566	$1,129,567
MRK	Merck & Co	33	11	22	$188,319	$1,820,906
MMM	3M Co	32	15	16	$255,017	$900,829
BRK.A	Berkshire Hathaway	31	13	18	$1,542,967	$2,026,072
WMT	Wal-Mart Stores	30	12	18	$316,590	$762,064
ABT	Abbott Laboratories	29	9	20	$131,012	$1,343,758
HD	Home Depot	29	13	16	$278,825	$417,211
CMCSA	Comcast Corp	29	14	15	$433,407	$421,523
GOOG	Google Inc	29	10	18	$465,193	$1,497,821
ORCL	Oracle Corp	28	11	16	$289,318	$677,815
UTX	United Technologies	28	11	16	$1,157,417	$515,381
BMY	Bristol-Myers Squibb	28	11	17	$83,013	$421,436
SLB	Schlumberger Ltd	27	12	14	$293,383	$1,313,689
C	Citigroup Inc	27	12	15	$79,883	$428,774
VOD	Vodafone Group	27	14	13	$152,019	$155,768
EMC	EMC Corp	25	10	14	$41,013	$122,728
UNP	Union Pacific Corp	23	9	14	$152,971	$1,106,073
AXP	American Express	23	8	14	$56,007	$358,281
KMB	Kimberly-Clark Corp	22	9	12	$128,010	$2,129,345
KRFT	Kraft Foods Group	22	7	15	$7,007	$160,893
MDLZ	Mondelez International	22	8	14	$51,009	$594,022
PM	Philip Morris International	22	7	15	$90,195	$591,752
MO	Altria Group	21	6	15	$5,006	$575,751
COP	ConocoPhillips	21	6	15	$1,033,007	$329,516
HP	Hewlett-Packard	20	6	14	$26,130	$92,906
ESRX	Express Scripts	20	7	13	$8,008	$603,872
F	Ford Motor Co	19	8	11	$23,656	$126,292
DD	Travelers Companies	19	5	14	$98,007	$142,273
AMZN	Amazon.com	19	6	13	$119,251	$187,161

Table 1 Panel B-2013 Treatment Sample of Stocks with Highest Level of Congressional Holdings

The table reports the ticker symbols, the number of members of the U.S. Congress holding the particular stock, the number of Congressional Democrats holding the particular stock, the number of Congressional Republicans holding the particular stock, the minimum investment by Democrats, and the minimum investment by Republicans.

Ticker	Company Name	All Congress	Number of Democrats	Number of Republicans	Democratic Investment	Republican Investment
	[1]	[2]	[3]	[4]	[5]	[6]
GE	General Electric	75	29	45	$1,055,649	$1,965,498
PG	Procter & Gamble	60	24	35	$669,031	$7,847,869
WFC	Wells Fargo	60	22	38	$493,436	$2,478,016
MSF	Microsoft Corp	59	26	33	$450,036	$2,317,072
AAPL	Apple Inc	59	18	40	$1,835,025	$1,706,902
JPM	JPMorgan Chase & Co	53	18	34	$383,184	$1,350,179
T	AT&T Inc	51	14	37	$131,019	$1,777,557
XOM	Exxon Mobil	50	14	35	$2,082,018	$3,142,873
CVX	Chevron Corp	50	15	35	$382,016	$3,279,735
VZ	Verizon Communications	50	16	34	$121,023	$1,138,640
IBM	IBM Corp	48	19	27	$815,023	$1,849,119
BAC	Bank of America	48	15	33	$215,180	$692,680
JNJ	Johnson & Johnson	46	18	27	$578,028	$1,776,639
CSCO	Cisco Systems	46	18	27	$89,021	$469,006
KO	Coca-Cola Co	44	21	23	$436,029	$2,264,040
PFE	Pfizer Inc	44	14	30	$224,784	$1,607,302
PEP	PepsiCo Inc	43	19	23	$1,323,022	$2,140,260
INTL	Intel Corp	43	19	24	$166,019	$932,601
DIS	Walt Disney Co	40	18	21	$365,026	$742,905
BRK.A	Berkshire Hathaway	38	15	22	$2,726,025	$2,757,908
QCOM	Qualcomm Inc	38	14	23	$414,021	$1,505,297
CMCSA	Comcast Corp	36	13	23	$617,013	$908,884
GOOG	Google Inc	35	9	25	$559,016	$3,037,425
MRK	Merck & Co	34	7	27	$299,008	$1,918,000
MCD	McDonald's Corp	33	14	19	$312,051	$429,210
SLB	Schlumberger Ltd	32	9	22	$259,014	$1,663,361
WMT	Wal-Mart Stores	30	9	21	$329,391	$1,107,423
UTX	United Technologies	29	11	17	$1,066,011	$1,061,221
ABT	Abbott Laboratories	29	10	19	$54,012	$843,377
HD	Home Depot	29	11	18	$226,946	$341,143
C	Citigroup Inc	29	9	20	$22,232	$703,963
MMM	3M Co	28	13	14	$255,015	$1,278,780
COP	ConocoPhillips	27	5	22	$1,048,007	$526,814
ESRX	Express Scripts	27	6	21	$21,007	$1,119,813
MDLZ	Mondelez International	26	9	17	$110,012	$1,101,421
ORCL	Oracle Corp	25	8	16	$237,012	$1,479,453
BMY	Bristol-Myers Squibb	25	8	17	$166,012	$630,798
F	Ford Motor Co	25	7	18	$36,008	$192,121
AXP	American Express	25	8	16	$57,008	$486,390
USB	US Bancorp	25	8	16	$59,010	$586,811
GS	Goldman Sachs	24	8	16	$105,037	$300,570
HON	Honeywell International	23	11	12	$126,014	$347,551
DD	DuPont Co	23	8	15	$323,011	$844,306
EBAY	eBay Inc	23	5	18	$47,005	$1,354,329
MET	MetLife Inc	23	8	15	$94,010	$283,633
KRFT	Kraft Foods	23	8	15	$8,009	$306,378
PM	Philip Morris International	22	8	14	$26,012	$562,648
V	Visa Inc	22	5	17	$1,098,008	$1,434,757
BA	Boeing Co	22	8	14	$165,010	$600,900
FB	Facebook Inc	21	11	10	$524,014	$211,938

Table 2 – Summary Statistics

Panel A. Summary Statistics for 2012 Stock Data Characteristics					
	Mean	Std. Deviation	Minimum	Median	Maximum
	[1]	[2]	[3]	[4]	[5]
Price	87.8100	121.6237	11.9800	56.2500	781.9300
Capitalization	132.886	85.5541	29.0041	112.6369	394.0918
Turnover	11.0752	31.9283	2.5987	5.6332	231.2154
Volatility	0.2612	0.8661	-1.3093	0.2151	2.9947
Spread	0.00028	0.00018	0.00005	0.00024	0.00084
Illiquidity	0.3597	0.2935	0.0079	0.3097	1.334520202
NASDAQ	0.2600	0.4431	0.0000	0.0000	1.0000

Panel B. Summary Statistics for 2013 Stock Data Characteristics					
	Mean	Std. Deviation	Minimum	Median	Maximum
	[1]	[2]	[3]	[4]	[5]
Price	84.9069	121.3470	11.9800	55.5500	781.9300
Capitalization	136.3436	83.6578	39.5826	112.2381	394.0918
Turnover	6.7936	3.7463	0.6719	5.6327	18.6722
Volatility	0.4180	1.3936	-1.0498	0.2151	8.3786
Spread	0.00026	0.00016	0.00005	0.00024	0.00084
Illiquidity	0.3856	0.0376	0.0008	0.0316	0.8351
NASDAQ	0.2449	0.4345	0.0000	0.0000	1.0000

Table 3 – Daily CARs Pre-STOCK Act Amendment and Post-STOCK Act Amendment

Panel A. 2012 CARs from daily market-adjusted returns using the CRSP market index						
	Equal Weight			Value Weight		
	MM	MAR	SW	MM	MAR	SW
	[1]	[2]	[3]	[4]	[5]	[6]
CAR(-1,1)	0.99%***	1.30%***	0.86%**	0.47%	0.67%*	0.40%
	(2.74)	(3.82)	(2.42)	(1.33)	(1.98)	(1.15)
CAR(-3,3)	0.80%*	1.19%**	0.63%	0.45%	0.78%	0.35%
	(1.83)	(2.46)	(1.42)	(1.02)	(1.6)	(0.78)
CAR(-5,5)	1.52%**	1.71%**	1.41%**	0.59%	0.70%	0.56%
	(2.42)	(2.57)	(2.24)	(0.93)	(1.05)	(0.87)
CAR(-7.7)	0.33%	0.31%	0.29%	-0.07%	-0.05%	-0.08%
	(0.52)	(0.47)	(0.46)	(-0.11)	(-0.07)	(-0.12)
CAR(-30,-2)	2.07%***	1.90%***	2.05%***	0.90%	0.78%	0.94%
	(3.5)	(3.45)	(3.44)	(1.43)	(1.42)	(1.5)

Panel B. 2013 CARs from daily market-adjusted returns using the CRSP market index						
	Equal Weight			Value Weight		
	MM	MAR	SW	MM	MAR	SW
	[1]	[2]	[3]	[4]	[5]	[6]
CAR(-1,1)	0.90%***	1.09%***	0.76%***	0.32%	0.46%*	0.26%
	(3.47)	(4.16)	(3.05)	(1.26)	(1.76)	(1.04)
CAR(-3,3)	0.80%***	1.07%**	0.63%*	0.41%	0.65%	0.31%
	(2.3)	(2.65)	(1.77)	(1.14)	(1.61)	(0.87)
CAR(-5,5)	1.42%**	1.60%**	1.31%**	0.42%	0.59%	0.40%
	(2.38)	(2.66)	(2.20)	(0.69)	(0.98)	(0.66)
CAR(-7.7)	0.59%	0.69%	0.57%	0.17%	0.33%	0.18%
	(0.94)	(1.15)	(0.91)	(0.27)	(0.55)	(0.29)
CAR(-30,-2)	1.87%***	1.98%***	1.89%***	0.64%	0.86%	0.71%
	(3.11)	(3.75)	(3.15)	(1.00)	(1.63)	(1.12)

Table 4 – Daily CARs Pre-STOCK Act Amendment

Panel A. 2012 CARs from daily market-adjusted returns using the CRSP market index						
	Equal Weight			Value Weight		
	MM	MAR	SW	MM	MAR	SW
	[1]	[2]	[3]	[4]	[5]	[6]
CAR(-5,0)	1.22%***	1.45%***	1.11%**	0.41%	0.54%	0.38%
	(2.9)	(3.38)	(2.64)	(1.00)	(1.26)	(0.91)
CAR(-3,0)	0.78%*	1.07%**	0.65%	0.32%	0.53%	0.25%
	(1.97)	(2.65)	(1.63)	(0.82)	(1.31)	(0.63)
CAR(-1,0)	0.69%*	1.15%***	0.51%	0.42%	0.78%***	0.30%
	(1.98)	(3.65)	(1.47)	(1.23)	(2.47)	(0.9)
CAR(-7,0)	0.72%*	0.93%**	0.61%	0.15%	0.30%	0.10%
	(1.69)	(2.08)	(1.44)	(0.36)	(0.68)	(0.24)

Panel B. 2013 CARs from daily market-adjusted returns using the CRSP market index						
	Equal Weight			Value Weight		
	MM	MAR	SW	MM	MAR	SW
	[1]	[2]	[3]	[4]	[5]	[6]
CAR(-5,0)	1.51%***	1.68%***	1.40%***	0.68%***	0.77%***	0.61%**
	(5.68)	(6.24)	(5.34)	(3.12)	(2.87)	(2.34)
CAR(-3,0)	1.18%***	1.38%***	1.05%***	0.65%**	0.84%***	0.62%***
	(5.38)	(5.63)	(4.85)	(2.47)	(3.42)	(2.83)
CAR(-1,0)	0.81%***	1.08%***	0.62%***	0.49%**	0.70%***	0.38%*
	(3.60)	(4.87)	(2.94)	(2.22)	(3.18)	(1.77)
CAR(-7,0)	1.05%***	1.23%***	0.95%***	0.44%	0.60%*	0.40%
	(3.28)	(3.78)	(3.01)	(1.39)	(1.86)	(1.28)

Table 5 – Daily CARs Post-STOCK Act Amendment

Panel A. 2012 CARs from daily market-adjusted returns using the CRSP market index						
	Equal Weight			Value Weight		
	MM	MAR	SW	MM	MAR	SW
	[1]	[2]	[3]	[4]	[5]	[6]
CAR(0,1)	0.78%***	1.03%***	0.68%**	0.27%	0.42%*	0.22%
	(2.81)	(4.20)	(2.51)	(1.02)	(1.71)	(0.85)
CAR(0,5)	0.79%	1.15%**	0.63%**	0.40%	0.69%	0.31%
	(1.57)	(2.16)	(2.16)	(0.79)	(1.29)	(0.62)
CAR(0,3)	0.51%	1.00%***	0.30%	0.36%	0.77%**	0.22%
	(1.49)	(2.87)	(0.91)	(1.05)	(2.20)	(0.67)

Panel B. 2013 CARs from daily market-adjusted returns using the CRSP market index						
	Equal Weight			Value Weight		
	MM	MAR	SW	MM	MAR	SW
	[1]	[2]	[3]	[4]	[5]	[6]
CAR(0,1)	0.82%***	0.97%***	0.71%***	0.26%	0.36%	0.21%
	(3.46)	(4.42)	(3.13)	(1.14)	(1.64)	(0.96)
CAR(0,5)	0.64%	0.88%	0.48%	0.21%	0.42%	0.12%
	(1.21)	(1.60)	(0.90)	(0.38)	(0.76)	(0.23)
CAR(0,3)	0.35%	0.65%*	0.14%	0.16%	0.42%	0.03%
	(1.06)	(1.80)	(0.43)	(0.46)	(1.16)	(0.09)

Table 6 – 2012 Cross-Sectional Regression Results

The table reports the results from estimating the following equation using cross-sectional data.

$$CAR(-5,0)_i = \beta_1 Ln(Repub/Dem)_i + \beta_2 Ln(Price_i) + \beta_3 Ln(MarketCap_i) + \beta_4 Ln(Spread_i) + \beta_5 Ln(Illiquidity_i) + \beta_6 Ln(Volatility_i) + \beta_7 Ln(Turnover)_i + \beta_8 NASDAQ_i + \alpha + \varepsilon_i$$

The dependent variable is the CAR from (-5,0), where day 0 is the day the policy was changed. We report regression results when we include each of the twelve estimated CARs using market models, Scholes-Williams market models, and market-adjusted returns. The independent variable of interest is the natural log of the Republican Congressional Investors divided by Democratic Congressional Investors. (Ln(Repub/Dem)). The control variables include the natural of Volatility (Ln(Volatility)), the natural log of market capitalization (Ln(MarketCap)), the natural log of share price (Ln(Price)), the natural log of share turnover (Ln(Turnover)), and the natural log of closing bid-ask spreads (Ln(Spread)). We include an indicator variable equal to zero if stock i is listed on NASDAQ – zero otherwise. We report t-statistics in parentheses, which are obtained from White (1980) robust standard errors. *,**, and *** denote statistical significance at the .10, .05, and the .01 levels, respectively.

	CAR(-5,0)					
	EW Market Model	VW Market Model	EW Scholes Williams	VW Scholes Williams	EW Adj. Returns	VW Adj. Returns
	[1]	[2]	[3]	[4]	[5]	[6]
Ln(Repub/Dem)	-0.0287**	-0.0260**	-0.0281**	-0.0258**	0.0296*	-0.0247*
	(-2.39)	(-2.19)	(-2.31)	(-2.17)	(1.76)	(-1.94)
Ln(Price)	-0.0210	-0.0135	-0.0202	-0.0136	0.0088	-0.0121
	(-1.39)	(-0.90)	(-1.32)	(-0.90)	(0.41)	(-0.75)
Ln(MarketCap)	-0.0210**	-0.0199**	-0.0205**	-0.0197**	-0.0050	-0.0201**
	(-2.46)	(-2.36)	(-2.38)	(-2.34)	(-0.41)	(-2.22)
Ln(Spread)	0.0181**	0.0172**	0.0176**	0.0168**	-0.0023	0.0169*
	(2.25)	(2.17)	(2.17)	(2.18)	(-0.20)	(1.99)
Ln(Illiquidity)	-0.0174***	-0.0160***	-0.0167***	-0.0158***	-0.0057	-0.0160***
	(-3.31)	(-3.08)	(-3.14)	(-3.03)	(0.44)	(-2.87)
Ln(Volatility)	0.0224	0.0155	0.0214	0.1533	-0.0083	0.0152
	(1.62)	(1.13)	(1.54)	(1.12)	(-0.43)	(1.04)
Ln(Turnover)	-0.0458***	-0.0441***	-0.0458***	-0.0442***	0.0067	-0.0455***
	(-5.53)	(-5.40)	(-5.48)	(-5.39)	(0.57)	(-5.18)
NASDAQ	-0.0025	-0.0033	-0.0022	-0.0031	-0.0138	-0.0045
	(-0.25)	(-0.33)	(-0.22)	(-0.32)	(-0.98)	(-0.42)
Constant	0.7048***	0.6376***	0.6876***	0.6321***	0.0242	0.6368***
	(3.54)	(3.25)	(3.43)	(3.21)	(0.09)	(3.02)
Adjusted R^2	0.4760	0.4716	0.4697	0.4702	0.0106	0.4348
N	50	50	50	50	50	50

Table 7 –2013
Cross-Sectional Regression Results

The table reports the results from estimating the following equation using cross-sectional data.

$$CAR(-5,0)_i = \beta_1 Ln(Repub/Dem)_i + \beta_2 Ln(Price_i) + \beta_3 Ln(MarketCap_i) + \beta_4 Ln(Spread_i) + \beta_5 Ln(Illiquidity_i) + \beta_6 Ln(Volatility_i) + \beta_7 Ln(Turnover)_i + \beta_8 NASDAQ_i + \alpha + \varepsilon_i$$

The dependent variable is the CAR from (-5,0), where day 0 is the day the policy was changed. We report regression results when we include each of the twelve estimated CARs using market models, Scholes-Williams market models, and market-adjusted returns. The independent variable of interest is the natural log of the Republican Congressional Investors divided by Democratic Congressional Investors. (Ln(Repub/Dem)). The control variables include the natural of Volatility (Ln(Volatility)), the natural log of market capitalization (Ln(MarketCap)), the natural log of share price (Ln(Price)), the natural log of share turnover (Ln(Turnover)), and the natural log of closing bid-ask spreads (Ln(Spread)). We include an indicator variable equal to zero if stock i is listed on NASDAQ – zero otherwise. We report t-statistics in parentheses, which are obtained from White (1980) robust standard errors. *,**, and *** denote statistical significance at the .10, .05, and the .01 levels, respectively.

	CAR(-5,0)					
	EW Market Model	VW Market Model	EW Scholes Williams	VW Scholes Williams	EW Adj. Returns	VW Adj. Returns
	[1]	[2]	[3]	[4]	[5]	[6]
Ln(Repub/Dem)	-0.0023	-0.0029	-0.0025	-0.0028	-0.0017	-0.0017
	(-0.31)	(-0.39)	(-0.33)	(-0.37)	(-0.22)	(-0.22)
Ln(Price)	-0.0084	-0.0065	-0.0075	-0.0060	-0.0050	-0.0050
	(1.43)	(-1.11)	(-1.26)	(-1.02)	(-0.83)	(-0.83)
Ln(MarketCap)	-0.0115	-0.0120	-0.115	-0.0122	-0.0131*	-0.0131*
	(-1.55)	(-1.62)	(-1.53)	(-1.63)	(-1.72)	(-1.72)
Ln(Spread)	0.0018	0.0024	0.0021	0.0027	0.0042	0.0042
	(0.26)	(0.36)	(0.30)	(0.40)	(0.61)	(0.61)
Ln(Illiquidity)	-0.0127***	-0.0129***	-0.0121***	-0.0127***	-0.0135***	-0.0135***
	(-3.36)	(-3.42)	(-3.16)	(-3.34)	(-3.48)	(-3.48)
Ln(Volatility)	0.0027	0.0014	0.0021	0.0011	0.0008	0.0008
	(0.91)	(0.47)	(0.71)	(0.37)	(0.26)	(0.26)
Ln(Turnover)	-0.0040	-0.0093	-0.0051	-0.0099	-0.0133*	-0.0133*
	(-0,84)	(-1.25)	(-0.67)	(-1.31)	(-1.73)	(-1.73)
NASDAQ	-0.0054	-0.0053	-0.0054	-0.0056	-0.073	-0.073
	(-0.84)	(-0.82)	(-0.83)	(-0.86)	(-1.10)	(-1.10)
Constant	0.1516	0.1574	0.1573	0.1648	0.1986	0.1895
	(1.09)	(1.13)	(1.11)	(1.17)	(1.39)	(1.32)
Adjusted R^2	0.2045	0.1843	0.1666	0.1697	0.1804	0.1804
N	50	50	50	50	50	50

Table 8 – 2012 Cross-Sectional Regression Results

The table reports the results from estimating the following equation using cross-sectional data.

$$CAR(-5,0)_i = \beta_1 Ln(MinInvest)_i + \beta_2 Ln(Price_i) + \beta_3 Ln(MarketCap_i) + \beta_4 Ln(Spread_i) + \beta_5 Ln(Illiquidity_i) + \beta_6 Ln(Volatility_i) + \beta_7 Ln(Turnover)_i + \beta_8 NASDAQ_i + \alpha + \varepsilon_i$$

The dependent variable is the CAR from (-5,0), where day 0 is the day the policy was changed. We report regression results when we include each of the twelve estimated CARs using market models, Scholes-Williams market models, and market-adjusted returns. The independent variable of interest is the natural log of the Republican minimum investment divided by Democratic minimum investment. (Ln(MinInvest)). The control variables include the natural of Volatility (Ln(Volatility)), the natural log of market capitalization (Ln(MarketCap)), the natural log of share price (Ln(Price)), the natural log of share turnover (Ln(Turnover)), and the natural log of closing bid-ask spreads (Ln(Spread)). We include an indicator variable equal to zero if stock i is listed on NASDAQ – zero otherwise. We report t-statistics in parentheses, which are obtained from White (1980) robust standard errors. *,**, and *** denote statistical significance at the .10, .05, and the .01 levels, respectively.

	CAR(-5,0)					
	EW Market Model	VW Market Model	EW Scholes Williams	VW Scholes Williams	EW Adj. Returns	VW Adj. Returns
	[1]	[2]	[3]	[4]	[5]	[6]
Ln(MinInvest)	-0.0049*	-0.0040	-0.0047	-0.0039	0.0082**	-0.0033
	(-1.75)	(-1.44)	(-1.65)	(-1.40)	(2.17)	(-1.12)
Ln(Price)	-0.0245	-0.0163	-0.0235	-0.0163	0.0145	-0.0144
	(-1.56)	(-1.05)	(-1.48)	(-1.05)	(0.69)	(-0.86)
Ln(MarketCap)	-0.0199**	-0.0185**	-0.0193**	-0.0183**	-0.0038	-0.0184*
	(-2.26)	(-2.13)	(-2.18)	(-2.10)	(-0.32)	(-1.97)
Ln(Spread)	0.0128	0.0124	0.0124	0.0120	0.0027	0.0123
	(1.63)	(1.60)	(1.56)	(1.54)	(0.25)	(1.47)
Ln(Illiquidity)	-0.0183***	-0.0167***	-0.0175***	-0.0164***	-0.0041	-0.0165***
	-(3.35)	(-3.09)	(-3.18)	(-3.04)	(-0.56)	(-2.86)
Ln(Volatility)	0.0216	0.0145	0.0206	0.0143	-0.0094	0.0140
	(1.51)	(1.03)	(1.43)	(1.01)	(-0.49)	(0.923)
Ln(Turnover)	-0.0437***	-0.0420***	-0.0436***	-0.0420***	0.0058	-0.0433***
	(-5.19)	(-5.05)	(-5.14)	(-5.04)	0.5159	(-4.86)
NASDAQ	0.0044	0.0030	0.0046	0.0031	-0.0207	0.0016
	(0.45)	(0.31)	(0.46)	(0.32)	(-1.57)	(0.15)
Constant	0.6413***	0.5713***	0.6232***	0.5648***	0.0283	0.5641**
	(3.20)	(2.89)	(3.08)	(2.84)	(0.10)	(2.66)
Adjusted R^2	0.4447	0.4384	0.4381	0.4365	0.0457	0.4012
N	50	50	50	50	50	50

Table 9 – 2013 Cross-Sectional Regression Results

The table reports the results from estimating the following equation using cross-sectional data.

$$CAR(-5,0)_i = \beta_1 Ln(MinInvest)_i + \beta_2 Ln(Price_i) + \beta_3 Ln(MarketCap_i) + \beta_4 Ln(Spread_i) + \beta_5 Ln(Illiquidity_i) + \beta_6 Ln(Volatility_i) + \beta_7 Ln(Turnover)_i + \beta_8 NASDAQ_i + \alpha + \varepsilon_i$$

The dependent variable is the CAR from (-5,0), where day 0 is the day the policy was changed. We report regression results when we include each of the twelve estimated CARs using market models, Scholes-Williams market models, and market-adjusted returns. The independent variable of interest is the natural log of the Republican minimum investment divided by Democratic minimum investment. (Ln(MinInvest)). The control variables include the natural of Volatility (Ln(Volatility)), the natural log of market capitalization (Ln(MarketCap)), the natural log of share price (Ln(Price)), the natural log of share turnover (Ln(Turnover)), and the natural log of closing bid-ask spreads (Ln(Spread)). We include an indicator variable equal to zero if stock i is listed on NASDAQ – zero otherwise. We report t-statistics in parentheses, which are obtained from White (1980) robust standard errors. *,**, and *** denote statistical significance at the .10, .05, and the .01 levels, respectively.

	CAR(-5,0)					
	EW Market Model	VW Market Model	EW Scholes Williams	VW Scholes Williams	EW Adj. Returns	VW Adj. Returns
	[1]	[2]	[3]	[4]	[5]	[6]
Ln(MinInvest)	0.0033	0.0030	0.0034	0.00307	0.0034	0.0034
	(1.37)	(1.23)	(1.40)	(1.24)	(1.37)	(1.37)
Ln(Price)	-0.0098*	-0.0079	-0.0089	-0.0075	-0.0063	-0.0063
	(-1.77)	(-1.43)	(-1.59)	(-1.33)	(-1.11)	(-1.11)
Ln(MarketCap)	-0.0087	-0.0094	-0.0085	-0.0096	-0.0102	-0.0102
	(-1.15)	(-1.24)	(-1.13)	(-1.26)	(-1.33)	(-1.33)
Ln(Spread)	0.0014	0.0020	0.0017	0.0023	0.0039	0.0039
	(0.21)	(0.31)	(0.25)	(0.35)	(0.58)	(0.58)
Ln(Illiquidity)	-0.0114***	-0.0017***	-0.0107***	-0.0115***	-0.0122***	-0.0122***
	(-2.99)	(-3.07)	(-2.78)	(-2.99)	(-3.10)	(-3.10)
Ln(Volatility)	0.0038	0.0024	0.0032	0.0022	0.0019	0.0019
	(1.29)	(0.83)	(1.10)	(0.73)	(0.63)	(0.63)
Ln(Turnover)	-0.0008	-0.0064	-0.0018	-0.0070	-0.0100	-0.0100
	(-0.11)	(-0.84)	(-0.23)	(-0.90)	(-1.27)	(-1.27)
NASDAQ	-0.0062	-0.0060	-0.0062	-.0063	-0.0080	-0.0080
	(-0.98)	(-0.95)	(-0.97)	(-0.98)	(-1.24)	(-1.24)
Constant	0.1033	0.1124	0.1072	0.1191	0.1411	0.1411
	(0.74)	(0.80)	(0.76)	(0.84)	(0.98)	(0.98)
Adjusted R^2	0.2384	0.2111	0.2031	0.1979	0.2161	0.2161
N	50	50	50	50	50	50