Bloomberg

Thursday, April 9, 2009
http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a_Fe_2_GELbQ

Wealthier Managers More Prone to Insider Trading, Study Shows

BY MICHAEL J. MOORE

Wealthy executives are more likely to illegally trade on inside information than less affluent ones, according to a study from Indiana University's Kelley School of Business.

Executives cited by U.S. regulators for making illegal inside trades from 1989 to 2002 were typically wealthier than peers who didn't break the law, even when controlling for their company's size and industry, according to the study by Utpal Bhattacharya, an associate professor of finance. The results dispute economic theories suggesting poorer people are more likely to break trading laws because potential gains outweigh the loss of wages and stature if they are caught.

"Money is clearly not the prime motivation," Bhattacharya said in an interview yesterday. "Psychologically, it could be hubris, thinking you are invincible. And sociologically, it could be that everyone else is doing it, so it could come from an unethical culture." Bhattacharya said the study controlled for the possibility that the Securities and Exchange Commission targeted wealthier executives. The companies that insider traders helped run were statistically average when it came to profitability and leverage, according to the study.

"These were not struggling companies," Bhattacharya said. "In the economic interpretation, you would expect a Hail Mary pass. It's a tiny company about to go bankrupt, and a manager does something and gets convicted because there was a huge benefit if he gets away with it and there's not much loss because the company's going down the tubes anyway."

In 2003, the SEC sued homemaking guru Martha Stewart over the misuse of information about cancer medicine Erbitux. The investigation also led to her criminal conviction for obstruction of justice. Selling shares of ImClone Systems Inc. allowed her to avoid a loss $45,673, or 0.01 percent of her net worth at that time, according to the study.