CPA Research Speaker Series (Accounting)
Alberta School of Business
Department of Accounting, Operations, and Information Systems

Presents:
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Topic:
Persistence of Activist Short-Sellers’ Performance:
The Effect of Past Success

Friday, February 7, 2020
2:00pm – 3:30pm
BUS Room 4-04 (CA Conference Room)

ABSTRACT

Abstract: This paper examines performance persistence of a unique group of information intermediaries, activist short sellers. Activist short sellers not only trade on target firms but also make their short positions and short rationales public. We find that past campaign performance does not predict systematically the performance of current campaign. However, the market overreacts on campaign publication date to activists with extreme recent success, suggesting that the market incorrectly believes activists with recent success have a greater ability to identify overvalued targets. This overreaction provides the opportunity for strategic behavior. We document that the claims made in the short reports following extreme success are less likely to be based on hard evidence of negative news. Indeed, we document that firms targeted by activists following extreme success consistently have relatively better earnings news. Finally, after controlling for the market reaction and other determinants, aggregate short interest covers more quickly following campaign by activist with recent success. In aggregate, these results are consistent with strategic behavior and suggest at least some market participants benefit from the market overreaction. Our paper adds to the emerging literature on activist short sellers and sheds light on the intricate dynamics between perceived reputation and opportunistic incentives.

(Copies of the paper are available in the AOIS Department offices)