"Trading Restrictions and Stock Prices."

Abstract:
Firms can manipulate their stock price by limiting the ability of their investors to sell. I examine a series of corporate events in Japan in which firms actively reduced their float - the fraction of shares available to trade - for periods of one to three months, locking investors into their long positions. Theory predicts that the greater are the restrictions, the greater is the impact of trading on price. Particularly severe restrictions are associated with returns of over 30 percent, most of which are reversed when the restrictions are removed. Firms are more likely to issue equity or redeem convertible debt during the restricted period, suggesting strong incentives for manipulation.