Applied Financial Economics ›
Volume 18, 2008 - Issue 17

Original Articles

The quiet period is making noise again

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Pages 1363-1378 | Published online: 11 Sep 2008
Cite this article https://doi.org/10.1080/09603100701704322

Abstract

We examine the initial public offering quiet period following the implementation of NYSE and NASD rules extending the quiet period from 25 to 40 days for lead underwriters. While early studies found positive excess returns at the expiration of the quiet period, more recent studies suggest that these returns have disappeared. Controlling for simultaneity bias and changes in analyst behaviour, we investigate whether positive significant returns indeed no longer occur around the expiration of the quiet period. Overall, we find that the quiet period is making noise again.

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Annual Meeting for helpful comments and suggestions. This article is scheduled for presentation at the 2007 Southern Finance Association Annual Meeting. The authors also thank Jay Ritter for providing Carter and Manaster (1990) and Carter, Dark and Singh (1998) rankings through his website at the University of Florida. The office of Graduate Studies in Business and the Department of Finance and Economics at Mississippi State University provided generous support for this project. All errors remain the property of the authors.

Notes

1 For a description of IPO underpricing, theories and evidence, see Khurshed and Mudambi (2002) and Ljungqvist (2007).

2 In addition, Li et al. (2005) find no evidence that the quiet period expiration affects the degree of information asymmetry in price spreads.

3 Bradley et al. (2004) also examine 14 IPOs issued from 9 July 2002 through 31 December 2002, a period after extension of the quiet period to 40 days. The authors do not tabulate results for these firms in their article, but the authors state that the findings are similar to the findings for the original sample.

4 Despite the overwhelming positive nature of analyst opinions documented by Bradley et al. (2003), Brau et al. (2006) find that 68.9% of CFOs agree that a disadvantage of an IPO is that it suddenly opens the firm to public scrutiny.

5 Although Bradley et al. (2004) examine all of 2002, they limit their primary sample to IPOs issued prior to July 8th because many investment banks switched from a 5-point rating system to a 3-point rating system and because the quiet period was extended from 25 … 2.

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[8] For the 2-day window, firms which do not receive coverage outperform those with an average rating strength equal to 1.00. This could be because the 2-day window only looks at the day the quiet period ends, and we include ratings issued 3 days after the end of the quiet period.

[9] Our results are similar when including firms that receive coverage before the end of the quiet period. These results are available from the authors upon request.

[10] For example, the 20 firms listed in Table 7 receive zero buy ratings, but at least one nonbuy rating.

[11] We exclude firms receiving coverage before the end of the quiet period.