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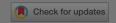
Symposium: Empirical Asset Pricing and Portfolio Allocation

## **Sanipulation by Intermediaries**

Serkan İmişiker, Rasim Özcan & Bedri Kamil Onur Taş 🔀

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## ABSTRACT

In this study, we investigate two main research questions using unique individual trade level data from the Istanbul Stock Exchange (ISE; renamed Borsa Istanbul in January

2013): (1) Do brokers conduct manipulative trades in the ISF? (2) Do these brokers gain

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Acknow

All views expressed herein are solely those of the authors and do not necessarily reflect those of the Central Bank of the Republic of Turkey and the Capital Markets Board of Turkey. The authors thank the Capital Markets Board of Turkey for providing the data set and for their hospitality. The authors are grateful to Alaattin Ecer, Abdurrahman Carkacioglu, Ahmet Alper Aycan, and Yavuz Akbulak for their help and for the invaluable discussions.

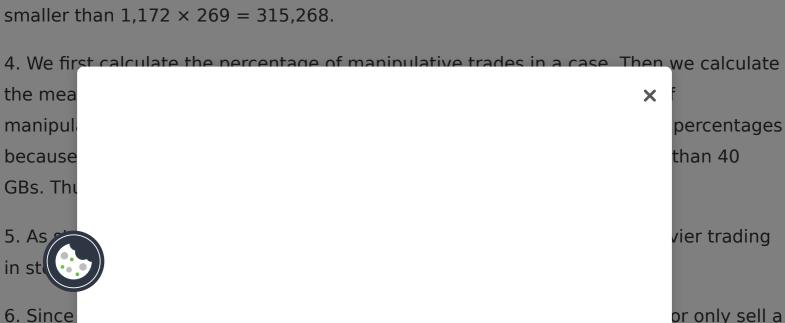
## Notes

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- 1. This period is analyzed because the governing board of the Capital Markets Board of Turkey (CMBT) provided us access to the ISE data set only for these years. The committee ruling number 759 dated July 12, 2007, provides the details on the conditions that the ISE data set would be made available for research conducted by the authors. The ruling states that the account numbers will be changed by the information technology (IT) department of CMBT without changing the uniqueness of each account number to assess anonymity. In addition, the ruling mentions that the data set can only be accessed at the premises of the CMBT in Ankara, Turkey.
- 2. They analyze only the trades in year 2005.
- 3. Every broker does not trade in all of the stocks. That is why the number of cases is smaller than  $1,172 \times 269 = 315,268$ .



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on the same day because it is unlikely (though possible) that different investors would all want to collectively buy (or collectively sell) on a given day.

- 7. Returns are calculated using average daily stock prices as in Khwaja and Mian (2005). We do not present empirical analysis of biased returns in the article for the sake of compactness. The results are available from the authors upon request.
- 8. The Istanbul Stock Exchange (IMKB in Turkish) merged with the Istanbul Gold Exchange and the Turkish Derivatives Exchange under the new brand "Borsa İstanbul" in April 2013.
- 9. The CMBT committee ruling number 759 dated July 12, 2007 provides the details on the conditions that the ISE data set would be made available for research conducted by the authors.
- 10. In the ISE, after a stock split, if the relevant firm has any potential to pay dividends to its shareholders, newly issued stocks are traded separately from the old ones. They are merged after the payout of dividends is realized. Until then, the new and the old stocks can be traded with different market prices. After the merge, they are traded at a single price. This procedure makes it impossible to calculate the profits of brokers for these specific stocks since we do not have the exact names of the stocks. In other words, we do not know the names of the stocks but just the identification numbers assigned by the DPSI Department of the CMBT to provide anonymity of the data set. Therefore, we eliminate all of the stocks that are subject to the merge process. This elimination is conducted by the DPSI Department of the CMBT since we could not have

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important in determining expected stock returns. Specifically, they empirically present

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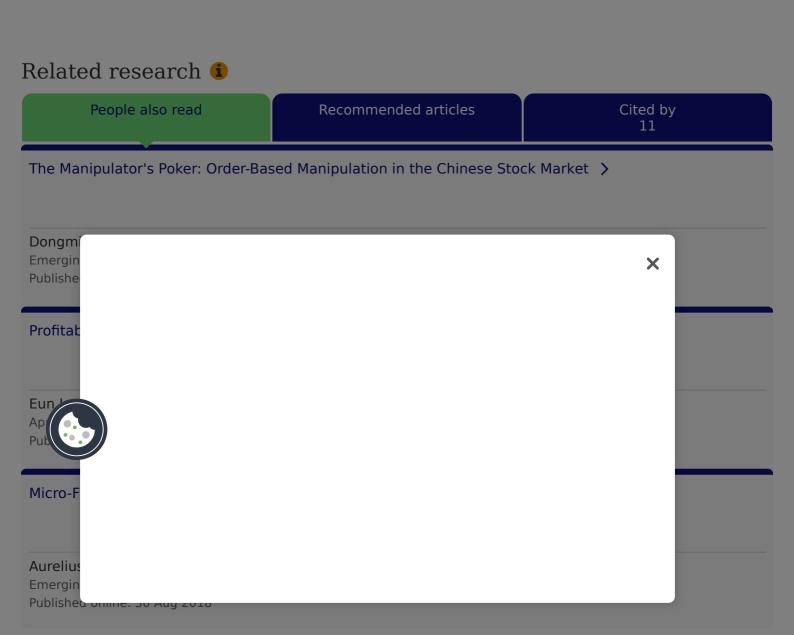
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the positive relationship between stock returns and value at risk (VaR). To examine the effect of higher order moments on stock returns, we calculate the skewness, kurtosis, and VaR of aggregated return series for all brokers and for brokers with high PRIN scores. These statistics are available from the authors upon request. The skewness statistic for all brokers is -6.42, and -11.59 for high PRIN brokers, indicating that returns are right skewed. The kurtosis statistics of both return series are very high. Hence, the series are highly leptokurtic. The skewness and kurtosis of returns of high PRIN brokers are significantly higher than those of returns of all brokers. This result shows that brokers who heavily conduct pump-and-dump trades operate in stocks with fatter tails.

14. One can control for broker characteristics by including broker fixed effects in the regressions. Regressions with broker fixed effects show that the results of Tables 4 and 5 do not change when this alternative regression specification is used. The broker fixed effects regression results are available from the authors upon request.



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