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Price Manipulation by Intermediaries

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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 ISE? (2) Do these brokers gain returns from “pump-and-dump” price manipulation of stocks listed on the ISE? Our results show that brokers who conduct manipulative trades on the ISE earn abnormal returns from these trades. These results suggest that price manipulation is a profitable activity for brokers on the ISE.

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KEY WORDS

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Notes

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 $1,172 \times 269 = 315,268$.
4. We first calculate the percentage of manipulative trades in a case. Then we calculate the mean of these percentages. We use the mean of these percentages as a threshold because the number of manipulative trades is small. If the percentage of manipulative trades is greater than 40, we consider the case as a manipulative case. Otherwise, we consider the case as a non-manipulative case. Thus, we have two groups of cases: manipulative and non-manipulative. Thus, we have two groups of GBs. Thus, we have two groups of cases: manipulative and non-manipulative.
5. As stated in the literature, the number of manipulative trades is small. Thus, we use the number of manipulative trades in stock as a threshold. If the number of manipulative trades is greater than 40, we consider the case as a manipulative case. Otherwise, we consider the case as a non-manipulative case. Thus, we have two groups of cases: manipulative and non-manipulative.
6. Since the number of manipulative trades is small, we use the number of manipulative trades in stock as a threshold. If the number of manipulative trades is greater than 40, we consider the case as a manipulative case. Otherwise, we consider the case as a non-manipulative case. Thus, we have two groups of cases: manipulative and non-manipulative.



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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