Ownership level, ownership concentration and liquidity

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Abstract

We examine the link between the liquidity of a firm’s stock and its ownership structure, specifically, how much of the firm’s stock is owned by insiders and institutions, and how concentrated is their ownership. We find that the liquidity-ownership relation is mostly driven by institutional ownership rather than insider ownership. Importantly, liquidity is positively related to total institutional holdings but negatively related to institutional blockholdings. This finding is consistent with the hypothesis that while the level of institutional ownership proxies for trading activity, the concentration of such ownership proxies for adverse selection.

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0. Introduction

An unresolved area in the field of finance is the relation between share ownership structure and liquidity. When considering this relation, researchers focus on two hypotheses, which we refer to as the adverse selection hypothesis and the trading hypothesis. The adverse selection hypothesis posits that when informed shareholders possess superior information compared to outside shareholders, an information asymmetry...