Political Connections and Insider Trading*

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Abstract

Politically connected insiders, especially senior officers who hold a director position, are more likely sell shares prior to negative abnormal returns. Politically connected insiders are also more likely to engage in other risky behavior: trading prior and closer to the earnings announcements, trading during periods that overlap with traditional blackout periods, and missing SEC timely reporting requirements. These finding are consistent with insiders perceiving their political connections as protection against SEC enforcement. Connections with Senators matter more since they have more control over the SEC. Connections with a particular political party have a greater effect on insider trading when the party controls both the House and the Senate.

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1. Introduction

I examine whether insiders' (directors, officers, and large shareholders) political connections influence the aggressiveness of their insider trades. Insider trading on private information is illegal in the US[1]. The number of insider trading charges by the Securities and Exchange Commission (SEC) has increased in recent years.[2] The SEC also emphasizes the importance of the detection and prosecution of illegal insider trading activities as one of its enforcement priorities.[3] However, because the SEC has limited resources, they must decide which cases to investigate (Kedia and Rajgopal, 2011).

Recent work reveals that firms use political connections to gain favorable treatments such as being excluded from an investigation or receiving lower penalties from regulatory agencies (Yu and Yu, 2011, Fulmer, Knill, and Yu, 2012, Correia, 2014). I hypothesize that individuals may seek both corporate *and personal* benefits. As a result, politically connected corporate insiders will be more willing to engage in "riskier" insider trading practices because they believe their political connections may provide some protection from the SEC. Moreover, because work (Cheng and Lo (2006) and Rogers (2008)) finds that insider sales are more likely to be investigated by the SEC than insider purchases, I expect the relation between political connections and aggressiveness to primarily occur with insider sales.

[1] According to the SEC, "Illegal insider trading refers generally to buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, on the basis of material, nonpublic information about the security. Insider trading violations may also include 'tipping' such information, securities trading by the person 'tipped,' and securities trading by those who misappropriate such information."

[2] See, for example, "SEC Enforcement Actions: Insider Trading Cases" https://www.sec.gov/spotlight/insidertrading/cases.shtml

[3] See, for example, "Insider Trading" https://www.investor.gov/additional-resources/general-resources/glossary/insider-trading

Following this literature, I use political contributions to proxy for political connections. An insider can build these connections by making donations himself and through the firm. Using the Federal Election Commission (FEC) public dataset and following Cooper, Gulen, and Ovtchinnikov (2010), I calculate eight measures of insiders' political connectedness—four measures based on their firm's political donations and four measures based on their own political donations. These measures take into account the contribution history of each firm and insider as well as the power of the political candidates that they support.

To test the hypothesis that politically connected insiders sell more aggressively to benefit themselves, I first explore the performance of their trades. If they are more likely to sell because of private information, I expect to see lower abnormal returns following their sales. I regress abnormal returns associated with an insider trade on each of the political connection measures and controls. The results from these regressions are consistent with my hypothesis. Trades of insiders with greater long-term political connections generate positive abnormal returns in the 30 trading days following the insider trades. These positive associations occur only when political connections are measured by the firm's donations (rather than when measured by the insider's personal donations). The weaker effects of individual insiders' political connections may be due to the insiders' political contribution patterns. Specifically, firms are more likely to consistently give to politicians relative to more sporadic individual gifts. Consistent with my hypothesis that the effect is driven by insider sales, the positive relation between political connections and subsequent returns to insider trades primarily arises from insider sales—the transactions most exposed to litigation risk.

Among corporate insiders, there are groups (e.g., members of the board of directors and senior officers) who are more likely to possess nonpublic information compared to others (e.g.,

blockholders and outside associates). If political connections are associated with insider trading on private information, I expect to see the effects of political connections are stronger for directors and senior officers. Moreover, prior literature also argues that insiders holding dual roles is associated with lower corporate governance (Jensen and Meckling, 1976, Fama and Jensen, 1983, Rechner and Dalton, 1991, Pi and Timme, 1993). As a result, I hypothesize that the effects of political connections should be stronger for this group of insiders. Further consistent with my hypothesis, when dissecting into different insider groups, I find that my results hold for directors and senior officers. Moreover, I find that the results are even stronger for insiders who serve as senior officers and directors at the same time, which is consistent with having CEO serving as a director is related to lower corporate governance.

Campaign finance data show that, on average, Senate candidates receive more total dollar contributions and are supported by a larger number of firms and individuals compared to House candidates do. If connections come from political contributions, the effects of connections with Senate candidates should be stronger compared to ones with other candidates. To test this hypothesis, I repeat the analysis for the sample split each political index into Senate/House political indexes. Consistent with my hypothesis and evidence that the Senate has more SEC and judicial branch control, I find that the relation between political connections, insider trades, and subsequent returns is stronger for Senate candidates than it is for House candidates.

Prior literature shows that when one party has more control over the government, firms supporting this party experience an increase in firm value (Jayachandran, 2006, Cooper, Gulen, and Ovtchinnikov, 2010). Hence, I expect to see connections with one political party have the dominant effect when that party is in control of both chambers. Following the method above, I split each political index into Democrat/Republican political indexes. Consistent with this

hypothesis, I find connections with Republican (Democratic) candidates matter more in the periods when the Republican (Democratic) party controls both House and Senate. During periods with control division (e.g., Democrats control the Senate and Republicans control the House), the effects of connections with these two major parties are similar.

To further investigate whether politically connected insiders are more likely to engage in legally risky trading, I examine the relation between insider trading and political connections with three measures of the "legal riskiness" of the trade: trading closer to earnings announcements, trading in sensitive periods (i.e., the most common periods used for blackouts), and failing to meet the SEC timely reporting requirements. Evidence suggests that such trade characteristics are associated with SEC enforcement actions. If politically connected insiders believe they have protection from SEC investigation, then insiders may be more likely to engage in these practices than non-politically connected insiders.

Most SEC charges arise from insiders' trading just prior to price-sensitive firm events (e.g., a merger or an earnings announcement).[4] I first examine the relation between political connectedness and how close to an earnings announcement an insider is willing to trade. Because information asymmetry is likely high just prior to earnings announcements, insider trading close to earnings announcements is discouraged and sometimes prohibited by companies. I find negative and statistically significant coefficients on firms' politically connection indices. The results are consistent with insiders from more politically connected firms engaging in riskier trades. Once again, consistent with my predictions, the results are driven by the firms' level of political connectedness rather than the individual's level of political connectedness.

[4] See, for example, "SEC Enforcement Actions: Insider Trading Cases" https://www.sec.gov/spotlight/insidertrading/cases.shtml

Many firms have blackout periods during which insiders (and often all employees) cannot trade the company's securities. Although blackout periods vary from firm to firm, most firms close trading in the window of t-10 to t+3 around the releases of earnings announcements (Bettis, Coles, and Lemmon, 2000). I therefore use this window to define "sensitive periods," during which insider trading might increase the risk of drawing SEC attention. Consistent with my hypothesis, I find a positive relation between the likelihood that an insider trade is executed during a sensitive period and both the firms' political connection index and the insider's political connection index.

Next, I investigate if politically connected insiders are less likely to fully comply with reporting requirements. Generally, the SEC has not penalized individuals for missing reporting deadlines, but the SEC does emphasize the importance of the filing provisions.[5] Corporate insiders were required to report their trades before the 10th day of the following calendar month before August 2002 and within 2 trading days after August 2002. I find higher political connection indices for both firms and individual insiders are associated with a higher likelihood of insiders reporting their trades out of the required windows. These findings further support my hypothesis that politically connected corporate insiders are more likely to execute legally risky trades.

In short, I find evidence that politically connected insider's sales are associated with larger abnormal returns. Further consistent with the hypothesis that politically connected insiders are more likely to trade on private information, political connections are associated with more legally aggressive insider trades. My results have several important implications. First, this study contributes to the literature on political connections by showing evidence that political connections may not always benefit shareholders, as at least some insiders appear to exploit firm political

[5] See, for example, "New SEC crackdown on late filings by insiders and major shareholders", Lexology, September 17, 2014 https://www.lexology.com/library/detail.aspx?g=da95770f-2d42-444e-863c-0c5494e07bd2

donations for personal gains. Moreover, to the extent that insiders personally benefit from corporate connections, shareholders are effectively paying for insider's trading advantage via corporate donations. Critics of insider trading also suggest that if outside investors expect insiders to trade on their private information, they will reduce their investment (Ausubel, 1990) which destroys firm value.

Second, my paper adds to the literature on determinants of insider trading by documenting that the relationships between firms and politicians is associated with the performance of insider trades. My tests suggest that politically connected insiders are more likely to trade on nonpublic information (i.e., their trades garner higher abnormal returns). I also show that political connections are associated with more legally aggressive insider trading behavior. Connected insiders are more likely to trade in the windows of high information asymmetry, and they are also more likely to delay reporting their trades to hide private information. Finally, although the literature demonstrates that most insiders avoid trading just prior to major corporate events, I find politically connected insiders are still more likely to do so consistent with the hypothesis that they believe that they have more protection from their political connections.

Three related studies investigate political connections and insider trading around a specific event. Specifically, two papers (Akin, Coleman, Fons-Rosen, and Peydró, 2018 and Jagolinzer, Larcker, Ormazabal, and Taylor, 2018) examine insider trading in politically connected banks during the 2008 Financial Crisis and find that trading behavior from politically connected insiders during the period before the Troubled Asset Relief Program (TARP) recipients were announced can predict the stock abnormal returns for the recipients after the announcement. In particular, insider purchases are associated with positive post-announcement performance while insider sales are associated with negative post-announcement performance. In addition, Bourveau, Coulomb,

and Sangnier (2016) employ a difference-in-difference design around the 2007 French presidential election and find evidence that insiders of firms with connections to the elected president, through campaign donations or direct friendships, gain larger abnormal returns for the insider trades. These connected insiders are also more likely to violate the French trading requirements. In addition to methodological differences, my study differs from this work by investigating whether politically connected insiders by focusing on insider trading in general rather than a single event or industry.

2. Literature review and background

2.1. Insider trading

Trades executed by corporate insiders draw much attention. Media, investors, and regulators often consider these trades signals of firm value since insiders know their business more intimately than others. Insiders may, however, trade in their firms' stock for many other reasons, for example, to rebalance their portfolios, to meet personal liquidity needs, or to manage their taxes (Lakonishok and Lee, 2001, Jenter, 2005). It is important for regulators to discern insider trading motives to adjust the regulatory environment to ensure a fair and efficient market. It is also important for other shareholders to understand insider trading signals since they are affected by this activity.

To test whether corporate insiders trade on private information, numerous papers focus on abnormal stock returns associated with insider trading and show that on average, trades by insiders are profitable (e.g., Lorie and Niederhoffer, 1968, Jaffe, 1974, Rozeff and Zaman, 1988, Bettis, Vickery, and Vickery, 1997, Lakonishok and Lee, 2001). When dissecting individual insider transactions, researchers usually find significantly higher abnormal performance from insider

purchases but not sales (Jeng, Metrick, and Zeckhauser, 2003, Piotroski and Roulstone, 2005, Marin and Olivier, 2008, Fernandes and Ferreira, 2009, Ravina and Sapienza, 2010). This evidence is consistent with multiple motives for insider sales, such as liquidity, diversification, and misvaluation, but with misvaluation being a more common motive for insider purchases (Lakonishok and Lee, 2001, Jenter, 2005).

Other papers test for private information in insider trades by examining the timing of insider transactions. Insider trading before price-sensitive news events is hypothesized to signal that insiders trade on their nonpublic information. A major focus of research is the relation between insider trading activity and earnings-related events. The results are mixed. While some papers find that insiders do not time their trades around earnings announcements (Elliot, Morse, and Richardson, 1984, Givoly and Palmon, 1985, Park, Jang, and Loeb, 1995), others report a strong relation between insider trading activity and earnings surprises. Penman (1982) finds more net insider purchases in the window of four months before good earnings news and less net insider purchases in the same window before bad earnings news. Elliot, Morse, and Richardson (1984) find similar results using the window of 12 months before earnings announcements. Huddart, Ke, and Petroni (2003) find insider sales increase 3 to 9 quarters prior to bad earnings news. They also posit that the insignificant abnormal selling in 2 quarters right before earnings announcements is due to the fear of legal jeopardy. During the periods right before major price-sensitive events, insiders likely face a higher risk of being charged with illegal information leakage. Consistent with this finding, Huddart, Ke, and Shi (2007) also find that insiders refrain from highly-profitable trades in the 20 days before earnings announcements likely resulting from their desire to avoid regulatory investigation.

Another line of this literature explores the cross-sectional variation in insider trading activity. The relationships between firms and other stakeholders play a role in explaining insider trading activity. Alldredge and Cicero (2015) suggest that when supplier firms have close relationships with their customer firms, insiders from the suppliers are more likely to trade on information gathered from their customers. Moreover, higher corporate governance is found to significantly reduce insider trade profitability (Dai, Fu, Kang, and Lee, 2016). This can be done through having provisions or actions to improve shareholders' benefits, for example, higher outside blockholders who monitor the firm more closely (Fidrmuc, Goergen, and Renneboog, 2006), avoiding executives sitting in the auditing committee (Ravina and Sapienza, 2010), assigning a general counsel (Jagolinzer, Larcker, and Taylor, 2011), and improving the quality of internal control (Skaife, Veenman, and Wangerin, 2013). Moreover, since trading decisions are made by insiders, insiders' personal attributes also play a role in predicting insider trading profitability. Hillier, Korczak, and Korczak (2015) find younger insiders, male insiders, and better educated insiders outperform their counterparties and that personal traits explain insider profitability better than firm characteristics do. This finding is consistent with the hypothesis that insiders' individual skills, abilities to acquire and process private information, attitudes to risks and biases (for example, overconfidence and optimism) play a role in insider trading decision and performance.

2.2. Political connections

The effect of political connections on firms is a growing topic in finance. There are two competing hypotheses regarding why firms may give to politicians. The first hypothesis states that relationships with politicians are value-enhancing to firms. Claessens, Feijen, and Laeven (2008)

and Cull, Li, Sun, and Xu (2015) show that politically connected firms have more access to bank debt financing. These firms are also more likely to be funded by the government when they face financial troubles (i.e., be bailed out). Faccio, Masulis, and McConnell (2006) and Duchin and Sosyura (2012) document a higher likelihood of bailouts when a politician or a relative of a politician is holding a position in the firm (top officers or large shareholders). Tahoun (2014) finds that firms with stronger relationships with politicians in terms of stock ownership receive more government contracts and these contracts are significantly more profitable to the firms. Consistent with the hypothesis that political connections are valuable, a higher abnormal equity return is found for connected firms (Goldman, Rocholl, and So, 2008, Cooper, Gulen, and Ovtchinnikov, 2010, Chen, Parsley, and Yang, 2010, Akey, 2015).

On the other hand, political connections can be reflective of an agency problem between managers and shareholders. That is, political connections may benefit managers rather than shareholders. Consistent with this view, Yu and Yu (2011) report longer class action periods for politically connected firms that are subject to security class action lawsuits. Fulmer, Knill, and Yu (2012) and Correia (2014) document lower SEC fraud detection and lower penalties when firms make contributions to political candidates. Consistent with this hypothesis, Aggarwal, Meschke, and Wang (2012) document a negative relation between political connections and future stock returns. Unlike prior literature mentioned in the previous paragraph which focuses on short-run event study, they examine long-horizon returns. They argue that using long-term returns is more appropriate to capture the agency motives and how shareholders evaluate the political investments. They also assert that their findings indicate greater agency problems for politically connected firms.

2.3. The SEC investigation process

An SEC investigation can be triggered by complaints by investors, any unusual behavior detected during routine inspection of SEC reports, referrals from other government agencies, or information from news and media. The case is assigned to SEC staff. The assigned staff have the *discretion* over whether to start the investigation.[6] The investigation usually begins with an informal investigation or a Matter Under Inquiry (MUI). During this stage, the SEC staff has no power to require testimony or issue subpoenas. They collect information based on voluntarily cooperation from involved firms and individuals. This is also a good chance for investigated parties to negotiate with the SEC to keep the investigation informal. At the end of this stage, the SEC staff can close the case, recommend an enforcement action, or recommend an order to commence a formal investigation. Most cases terminate during this informal investigation period.

A formal order is issued only by the senior officers of the Enforcement Division. These officers have the *discretion* over whether to issue one.[7] Once the formal order is issued, the formal investigation starts. At this stage, the SEC staff has the power to issue subpoenas for documents and compel testimony. Even though the SEC staff still has the option to drop the case, the probability of a formal investigation terminating without any adverse action after this point is lower than in the informal stage. Most of the formal investigations end up with a recommendation to an enforcement action. Since 2010, about 60% of the investigations each year result in an enforcement action.[8]

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[6] As pointed out in the SEC Enforcement Manual (2013), *"Assigned staffs are encouraged to use their discretion and judgement in making the preliminary determination of whether it is appropriate to open a MUI (Matter Under Inquiry).*"

[7] As pointed out in the SEC Enforcement Manual (2013), "*Pursuant to delegated authority, certain senior officers at the Division may, in their discretion, issue a formal order of investigation."*

[8] As shown in the 2017 Annual report of the U.S. SEC Division of Enforcement, https://www.sec.gov/files/enforcement-annual-report-2017.pdf

After the recommendation to an enforcement action from the SEC staff, SEC has the discretion to choose to bring the case to the Federal Court or before an independent administrative law judge employed by the commission.[9] Critics on this matter point out that when being litigated within the SEC, the SEC has much more control over the cases.

2.4. Hypothesis development

Because SEC has limited resources, they cannot monitor all firms equally (Khademian, 1992). As explained above, the SEC and its staff have discretion over whether to start an investigation, whether to terminate the case at any stage of the investigation, and whether to recommend appropriate penalties. Politicians, on the other hand, can exert their power over SEC activities through different mechanisms. The first mechanism is through the appointment of commissioners as five of the SEC Commissioners are appointed by the President (and confirmed by the Senate). Their terms last five years and staggered so every year, one Commissioner's term ends.[10] In general, Commissioners and SEC staff may be concerned about their future (Correia, 2014). With the pressure of threats of turnover and current and future career concerns, politicians can encourage Commissioners and staff members to act in accordance with their interests. The second mechanism is by directly interfering with the operation of the SEC. Congress can make the investigation process longer, more intimidating, and more costly to the SEC. Arthur Levitt, the longest-serving Chairman of the SEC from 1993 to 2001, shares his experiences during his years

[9] In some particular cases, based on the remedy, the case can only be settled in Federal Court or in an administrative hearing. For example, an emergency asset freeze can only be issued by the Federal Court while suspension, revocation broker-dealer, and investment advisor registrations or barring from the securities industry can only be ordered by an administrative law judge. For more details on how investigation works, see https://www.sec.gov/enforce/how-investigations-work.html

[10] For a current list of SEC Commissioners, see https://www.sec.gov/Article/about-commissioners.html

at the SEC in Levitt and Dwyer (2002). According to Levitt, when corporations disagree with the SEC, they go directly to "Capitol Hill," bypassing the SEC. He said: "*Soon, I was spending almost all my time deflecting a barrage of phone calls, visits, and letters from House and Senate members*".

For commissioners with five-year terms, investigations like this can exhaust their time serving in the SEC, preventing them from impacting policy (Weingast, 1984). Not only does Congress have the ability to control the SEC's activities, they also have the incentive to do so. Connections with corporations, proxied by political contributions, are associated with a higher probability of re-election (Poole and Romer, 1985, Stratmann, 1995). Thus, politicians may provide protection against the SEC to improve connections with the firms, yielding more donations and maximizing the probability of re-election.

I further propose that corporate insiders, as parts of the firm, also enjoy protection through the firm's connections. Politicians recognize that managers of the firm (i.e., individuals) make corporate decisions. Moreover, individuals can further build their own political relations by contributing to political candidates themselves as individual donors. I investigate whether insiders exploit these connections and engage in legally riskier trading of their firm's stock.

3. Data and descriptive statistics

3.1. Political connections

Following the literature, I measure political connections by using political contributions. Corporations are prohibited from making direct contributions to federal candidates. However, they can sponsor a political action committee (PAC), known as a "connected PAC" because this PAC is primarily linked with the firm. This PAC can receive money from the firm or other donors and

donate to a federal candidate by transferring money to a committee under the candidate's name.[11] The firm is responsible for all administrative and operating fees of the connected PAC. While the contributions are under the connected PAC's name instead of the firm's name, it is easy to infer that the contributions are associated with the firm. For example, the connected PAC for Paypal is named as "Paypal Inc. Political Action Committee."

Data on political contributions are from the FEC contribution dataset from 1981 to 2016 (18 election cycles). Campaign finance law requires federal candidates (candidates running for the House, the Senate, President, and Vice President) to report all parties that give them "hard money" contributions over $200 in an election cycle.[12] (This is in contrast to "soft money," which is noncandidate-specific contributions made to the political parties and is used for "party building" purposes, e.g., administrative expenses, instead of a candidate's campaign.) I collect connected PAC contributions from the "Contributions to candidates" file. This file contains each contribution made by a PAC, party committee, candidate committee, or other federal committee to a candidate committee. To obtain the details on the donors, I merge this file with the "Committee master" file using the donor committee ID. In the "Committee master" file, the FEC classifies all committees that are connected with an organization into six different groups: (1) Corporation, (2) Labor organization, (3) Membership organization, (4) Trade association, (5) Cooperative, (6) Corporation without capital stock. I only focus on transactions from the Corporation group.

Individual contributions are obtained from the "Contributions by individuals" file. This file contains every contribution over $200 from an individual to a PAC, party committee, candidate

[11] It is possible, albeit unlikely, that individuals unrelated to the company donate to the corporate PAC.

[12] Before the Bipartisan Campaign Reform Act in 2002, firms could make "soft money" contributions, which are noncandidate-specific. "Soft money" is donated to political parties for state or local election purposes.

committee, or other federal committee. I measure individual donations by focusing on individual contributions to a candidate committee. To do so I merge this file with the "Committee master" file using the receiving committee ID and only keep the committees with a connected candidate (i.e., if the candidate ID is provided for that committee).

The FEC imposes limits on the amount of contributions a PAC or an individual can make in an election cycle. Since Federal Election Campaign Act (FECA), passed by Congress in 1971, for every election cycle, a PAC can give a maximum amount of $5,000 to a candidate during the primary election and $5,000 during the general election, totaling $10,000 per candidate per election cycle. There is no limit on how much a PAC can contribute, in total, in a cycle. FECA also capped contributions made by individuals at $2,000 ($1,000 primary and $1,000 general) to each candidate in each election cycle and $25,000/year (or $50,000/cycle) in total. These individual limits have been increasing gradually since the Bipartisan Campaign Reform Act in 2002. In 2014, the Supreme Court removed the limits for the total amount of individual contributions and restricted individual contributions per candidate per cycle at $5,400 ($2,700 primary and $2,700 general). More details about limits on contributions from PACs and individuals to federal candidates can be found in Appendix A.

Contribution limits imply that the direct amount donated to a candidate for each firm (insider) is quite low and, perhaps, insufficient to buy candidates' attention.[13] Thus, other forms of support must take place. Milyo, Primo, and Groseclose (2010), for example, argue that hard money contributions are used to buy access to the candidates and that these contributions are

[13] For the election cycle 2016, the average funds raised by 10 candidates who raised the least from House and Senate are $40,636 and $2,483,594 respectively. While these figures for 10 candidates who raised the most from House and Senate are $8,633,535 and $18,835,977. Election Overview. https://www.opensecrets.org/overview/

correlated with other forms of support that firms use to build relationships with politicians. Some firms bypass the contribution limits by having separate connected PACs for their subsidiaries[14] while others offer the politicians some non-monetary favors, for example, free rides on their company private jets.[15] Perhaps more important, corporations can give unlimited support to Super PACs that have no official relation with a candidate. Following work in this area, I assume that either corporate or individual giving to a committee formally tied to a candidate is correlated with total giving. For that reason, measures of political connectedness often focus on the contribution history between firms and political candidates rather than dollar values.

To measure the relationship between a firm (or an insider) with political candidates, I use the political connection indices developed by Cooper, Gulen, and Ovtchinnikov (2010) and Correia (2014). The first index, $PI_{it}^{candidates}$, for firm (insider) *i* in an election cycle is defined as

$$PI_{it}^{candidates} = \sum_{j=1}^{J} Candidate_{jt,t-3} \quad (1)$$

where $Candidate_{jt,t-3}$ is a binary variable that takes a value 1 if firm (insider) *i* has made contributions to candidate *j* in each of the past 3 cycles and 0 otherwise. *J* is the number of candidates supported by firm (insider) *i*. This index measures the total number of supported candidates over the previous 3 cycles.[16]

[14] See, for example, "Campaign Gifts From Big Insurer Elude the Limit". The New York Times, September 19, 2006, https://www.nytimes.com/2006/09/19/nyregion/19donate.html

[15] See, for example, "Flying Those Corporate-Friendly Skies", Washington Post, October 1, 1998 http://www.washingtonpost.com/wp-srv/politics/campaigns/money/archive/money100798.htm, "Enron's Close Ties to Bush", ABCnews, December 10, 2001 https://abcnews.go.com/Politics/story?id=121269&page=1, "Politicians are frequent fliers on corporate jets", NBC News, May 10, 2014 http://www.nbcnews.com/id/12616010/ns/nbc_nightly_news_with_brian_williams-nbc_news_investigates/t/politicians-are-frequent-fliers-corporate-jets/#.W7aVcPZlDcs

[16] I differ from Cooper, Gulen, and Ovtchinnikov (2010) in that I examine donations over three election cycles (while they focus on five calendar years). A firm may support a candidate campaign in an election cycle by clustering their donations in one year of the cycle.

The second index from Cooper, Gulen, and Ovtchinnikov (2010), $PI_{it}^{strength}$ for firm (insider) *i* in election cycle *t*, measures the strength of the relationships between candidates and contributors and is defined as

$$PI_{it}^{strength} = \sum_{j=1}^{J} Candidate_{jt,t-3} \times I_{jt} \times Pct_{jt} \times Rellength_{jt} \qquad (2)$$

where I_{jt} is an indicator variable equal to 1 if the candidate *j* was in the office in the election cycle *t* and equal to 0 otherwise, Pct_{jt} is the percentage of votes received by candidate *j* in election cycle *t*, and $Rellength_{jt}$ is the number of cycles that the firm (the insider) has been maintaining an uninterrupted relationship with candidate *j* until time *t*. This measure accounts for whether the candidates won the election, the percentage of the vote the candidate received, and the length of the uninterrupted relationships. Thus this measure has a larger value when a candidate is more powerful (won by a large majority) and when the insider or firm has a more consistent relationship with the candidate.

The third index from Cooper, Gulen, and Ovtchinnikov (2010), PI_{it}^{power} for firm (insider) *i* in election cycle *t*, measures the power of the candidates by taking into account their rankings within each within House/Senate committee. It is defined as

$$PI_{it}^{power} = \sum_{j=1}^{J} Candidate_{jt,t-3} \times I_{jt} \times Pct_{jt} \times \left[\sum_{m=1}^{M} \frac{Committee\ rank_{mt}}{Median\ committee\ rank_{mt}}\right]_j \qquad (3)$$

where $Committee\ rank_{mt}$ is the reciprocal of candidate *j*'s rank on committee *m* (rank =1 for the most important member), and $Median\ committee\ rank_{mt}$ is the median rank of members on a given committee *m* of which candidate *j* is a member.

My last political index comes from Correia (2017), which captures the number of members of the House and Senate Appropriations, Commerce, Finance and Banking Committees who have

a relationship with the firm/the insider through political contributions. These members are in a better position to provide the firm/the insider protection since they have direct control over the SEC operation. PI_{it}^{relate} for firm (insider) *i* in election cycle *t*, is defined as below

$$PI_{it}^{relate} = \sum_{j=1}^{J} Candidate_{jt,t-3} \times I_{jt} \times Related_{jt} \quad (4)$$

where $Related_{jt}$ takes value 1 for politicians serving in the House or Senate Appropriations, Commerce, Finance, and Banking Committees and 0 otherwise.

To create comprehensive measures of political indices that capture both firms' and insiders' connections, for each insider-firm observation in each election cycle, I compute $PI_{combined}$ by adding up the values of each political index for firm and for insider. Specifically, for insider i in firm k in election cycle t,

$$PI_{combined\ ikt} = PI_{firm\ k,t} + PI_{insider\ i,t}$$

3.2. Insider trading

Insider trading data are from SEC Form 4 filings by Thomson Reuters Filing Database. When an insider executes a transaction involving their company's stock, he or she is required to file Form 4. In this form, the insider must specify the amount of securities purchased or sold and the price per share. Section 16a of the Securities and Exchange Act of 1934 also requires the corporate insiders to report these transactions within 10 days of the next calendar month. On August 27, 2002, the deadline was changed to a two-trading day deadline. The insider trading data are available from 1986, allowing me to have 3 election cycles (1980, 1982, and 1984) to compute the political connection indices before examining insider trading. Therefore, the final insider

trading sample period is from November 5th, 1986 (the beginning of the 1988 cycle) to November 8th, 2016 (the end of the 2016 cycle). I only focus on the open market purchases or sales of common stock (transaction codes "S" and "P", security title "COM"). I follow Cohen, Malloy, and Pomorski (2012) and exclude Table 2, derivative transactions and stock transactions resulting from options exercised, from the sample. I delete trades with cleanse codes "S" and "A"[17] (Agrawal and Nasser, 2012, Rogers, Skinner and Zechman, 2016). I then aggregate all remaining trades per insider at the daily level for both purchases and sales (Brochet, 2010, Betzer, Gider, Metzger, Theissen, 2015, Cline and Houston, 2018). For example, on November 1st, an insider has following transactions: a sale of 100 shares and a purchase of 200 shares. His/her trading record for Novermber 1st is buying 100 shares.

In October 2000, the SEC enacted Rule 10b5-1, which allows insiders to set up a trading plan that specifies the prices, amount and dates of the trades on a scheduled basis. This rule specifically requires insiders not to own any private information when planning the trades. Therefore, these trades are less likely to be informed, even if they might have some characteristics of the legally risky trades (e.g., close to a major corporate event). I therefore excludes all the trades that are marked as being in a Rule 10b5-1 plan.

Insider trading data are then merged with stock return and price data from the Center for Research in Securities Prices (CRSP), financial data from Compustat, and corporate governance data from Execucomp and Institutional Shareholder Services (ISS). Next, I match political connection indices for firms with insider trading data using firm names. Political connection indices for individual insiders are merged with the main dataset using a fuzzy match algorithm on

[17] Cleanse code "S" indicates that the security does not meet the collection requirements. Cleanse code "A" indicates that numerous data elements were missing or invalid and reasonable assumptions could not be made.

donor name and insider name. I then hand-clean all matches to make ensure the employer filed with the FEC is similar to firm name from insider trading file. Details on data sources and other variable constructions for the tests are described in Appendix B. My final sample consists of 815,920 daily insider trades from 106,190 unique insiders of 10,755 unique firms.

3.3. Summary statistics

Panel A of Table 1 reports contribution characteristics for the sample of firms with insider trading data for each election cycle from 1980 to 2016. The values in the first three rows of the second and fourth columns are missing because data on insider trading are only available from 1986. Overall, about 10% of the firms[18] make some political contributions to a candidate committee. The number of candidates supported by a typical firm does not vary much in the 1980s and 1990s, ranging from 45 to 49 candidates. This number starts to increase in the 2000s and reaches about 60 by 2016. The average firm contribution per candidate also gradually climbs from $565 in 1980 to $3,110 in 2016. The whole distribution of average contribution per candidate per firm also progressively moves to the right with the maximum amount has been at the cap $10,000 since 1994. With increases in both the number of candidates supported and the amount spent on each candidate, the average total political expenditure each election cycle, conditional on some giving, for a firm grows nearly 10 times from $29,000 to $235,000.

Panel B shows contribution statistics for individual insiders. On average, the amount of money an insider contributes to a political candidate is comparable to how much a firm does but the number of candidates supported by an insider is much lower, lying between 2 to 4 candidates,

[18] From this point, for simplification, I use the term "contributions from a firm" instead of "contributions from a connected PAC of a firm."

resulting in significantly lower total political expenditures. While in each cycle, at least 99% of the donating insiders comply with the contribution caps, there are some extreme donations that exceed the limits. The FEC requires the contribution recipients to refund the amount exceeding the limits. However, the data on refunds are not public. On the other hand, donors are rarely punished for a single excess contribution, and, according to the contribution history, these insiders do not continue making excessive donations in multiple cycles.[19, 20]

Table 2 presents the correlation between political connection indices for firms and corporate insiders for the sample of firms and insiders with insider trading data. Consistent with Cooper, Gulen, and Ovtchinnikov (2010), Panel A shows that the four firm political connection indices are strongly correlated, ranging from 0.85 (correlation between PI^{power}_{firm} and $PI^{strength}_{firm}$) to 0.9812 (correlation between PI^{power}_{firm} and PI^{relate}_{firm}). Political indices for insiders, demonstrate much lower, but still positive, correlations (Panel B) ranging from 0.5135 (correlation between $PI^{strength}_{insider}$ and $PI^{candidates}_{insider}$) to 0.7510 (correlation between $PI^{power}_{insider}$ and $PI^{relate}_{insider}$). Correlations between political indices for firms and for insiders are positive but very low (Panel C)[21].

Politically connected and non-politically connected firms, on average, could have different characteristics. Table 3 Panel A compares statistics for the sample of firm-years with all zero

[19] In 2018, Rosie O'Donnell, an American comedian, actress, author, and television personality, was reported making $5,400 in contributions over the limits to at least five Democratic federal candidates. When asked, she said she often donated and did not pay attention to the limits. She also has a record of making excess contributions to state and city candidates. However, it is unlikely that she will be penalized by the FEC. https://nypost.com/2018/05/05/rosie-odonnells-campaign-donations-to-dems-went-over-legal-limit/

[20] See, for example, What Happens When You Break Campaign Finance Law, https://www.huffingtonpost.com/2013/07/22/campaign-contribution-limits_n_3607672.html

[21] Panel C has more observations than Panel B because one insider can be in different firms, which causes more than one insider-firm observation for one insider.

political indices, both for firms and their insiders (i.e., no political connection) and firm-years with at least one non-zero political index for firms or their insiders (i.e., some political connection). Compared to firms without political connections, firms with some political connections are larger in market capitalization and lower book-to-market ratios. They also have higher institutional ownership. Their CEOs are more likely to hold a director position, and their boards of directors have a higher proportion of independent directors. The distributions of the variables used in this paper are shown in Appendix C.

3.4.Possible self-selection bias

The choice to participate in the political contribution process is endogenous. As shown in Table 1, only 10% of firms and less than half of insiders chose to make political donations. The observed sample therefore can suffer from a self-selection bias. To control for this selection bias, I use a two-stage Heckman's (1979) selection model. In the first stage, I estimate the probability of a firm/an insider being involved in the political election process (i.e., making political contribution) using probit regressions[22].

Overall, bigger firms (in terms of market capitalization, sales, or number of employees), firms with more business segments but fewer geographic segments, firms with higher leverage, firms with lower free cash flows, firms operating in more competitive industry or in regulated industry, firms with more government customers, and firms with higher percentage of unionized

[22] The exclusion restriction of the Heckman's selection model requires that there is at least one independent variable in the first stage not included in the second stage and this variables have no relationship with the error term in the second stage (Certo et al. (2016)). In the first stage for the firms, I include industry level variables that are less likely to affect the insiders' willingness to engage in risky insider trading, for example, the Herfindahl index, number of politically active firms and the percent of unionized employees. These variables are not included in any of the second stage regressions.

employees are more likely to make political contributions. The number of politically connected firms in the industry is also a strong indicator of the likelihood of political involvement. These results are consistent with previous papers that study the determinants of the likelihood of a firm having an active PAC (Masters and Keim, 1985, Grier, Munger and Roberts, 1994, Cooper, Gulen and Ovtchinnikov, 2010). For insiders, younger insiders, more experienced insiders (i.e., have been sitting in the position longer), insiders with a bigger network, and insiders who serve on more boards are more likely to make political contributions. The demographics of insiders also play a role in the decision to be politically connected. Males and Americans are the groups with higher probability of political participation. Insiders are also more likely to be politically connected when they have higher compensation and when they have more politically connected co-workers. The detailed results of these first stages are reported in Appendix C for firms and Appendix D for insiders.

In the second stage, I add the inverse Mills ratio calculated from the first stages into the regressions to control for the likelihood of self-selecting into the politically connected group[23].

4. The information content of politically connected insider trading

In this section, I test my first hypothesis. If political connections are associated with more insider trading on private information, I expect a positive relation between the sign of politically connected insider's transactions and the subsequent abnormal return. Specifically, I use the insider trading day as the event date and examine the subsequent 30-trading day excess return. I use three

[23] In some untabulated tables, I run the models (1) without any inverse Mills ratio, (2) with only inverse Mills ratio for the firms, and (3) with only inverse Mills ratio for the insiders and the results hold.

different excess return measures: market-adjusted, size-adjusted, and Daniel, Grinblatt, Titman, and Wermers (DGTW)-adjusted returns. These returns for stock *i* is calculated as

$$Market-adjusted\ return^{i}(0,30) = \sum_{t=0}^{30}(R_t^i - R_t^m) \quad (5)$$

$$Size-adjusted\ return^{i}(0,30) = \sum_{t=0}^{30}(R_t^i - R_{size,t}) \quad (6)$$

$$DGTW-adjusted\ return^{i}(0,30) = \sum_{t=0}^{30}(R_t^i - R_{size-value-momentum,t}) \quad (7)$$

where R^i_t is the daily stock return, R^m_t is the daily CRSP value-weighted market index, $R_{size,t}$ is the daily value-weighted return for a portfolio of stocks in the same size decile[24] with stock *i*, $R_{size\text{-}value\text{-}momentum,t}$ is the daily value-weighted return for a portfolio of stocks with similar size, value, and momentum characteristics[25] with stock *i*.

Table 4 compares *Market-adjusted return*, *Size-adjusted return*, and *DGTW-adjusted return* for the samples of non-connected trades (i.e., political indices for the insider who makes the trade and for the firm are all zero) and connected trades (i.e., at least one political index for the insider who makes the trade and for the firm is nonzero). On average, connected insider trades, both purchases and sales, are followed by lower excess returns. These results are consistent across different measures of excess returns. Connected insider purchases (sales) are followed by a 1.58% (0.43%) lower market-adjusted return, a 1.09% (0.46%) lower size-adjusted return, and a 0.22% (0.80%) lower DGTW-adjusted return in the period of 30 trading days after the trades compared

[24] The portfolios are constructed at the end of each June, using the June market equity as the measure for size. The size benchmarks are available via http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. Each CRSP stock is assigned to a benchmark portfolio based on its size rank as of the end of each June.

[25] The DGTW-adjusted returns are calculated following Daniel, Grinblatt, Titman and Wermers (1997). At the end of every June, all CRSP stocks are sorted into quintiles based on size (market capitalization). In each quintile, stocks are sorted into quintiles again based on industry-adjusted value (book-to-market). In each of the 25 portfolios, stocks are sorted one last time into quintiles based on momentum (prior 12-month returns). I then have 125 benchmark portfolios. Each CRSP stock is then assigned to a benchmark portfolio based on its size, value and momentum as of the end of each June.

with purchases (sales) made by non-connected insiders. The result for insider sales is consistent with my hypothesis that political connections are related to higher information content of insider trading while the result for insider purchases is inconsistent with this hypothesis. However, the differences in abnormal return between connected and non-connected groups among different returns measures suggest that these gaps may be driven by the differences in characteristics of politically connected and non-connected firms.

4.1. Baseline regression

To control for other factors that may affect insider trade performance, I examine the excess returns associated with insider trades using a regression framework. Specifically, I regress the *Market-adjusted return (0,30)* on the measures of political indices of the firm and the insider with other control variables on a sample of daily insider trading,

$$Market-adjusted\ return\ (0,30) = \alpha + \beta_1 PI * Buy + \beta_2 PI * Sell + \gamma_1 Buy + \gamma_2 Sell + \gamma_3 IMR_{firm} + \gamma_4 IMR_{insider} + \gamma_5 Past\ month\ return + \gamma_6 Past\ year\ return + \gamma_7 Ln(Size) + \gamma_8 Ln(Book_{market}) + \varepsilon \quad (8)$$

where *PI* is a given political index for the firm. Each political index is standardized. As discussed in the previous paragraph, I expect to see different effects of political connections on performance of insider purchases and sales. Therefore, I interact the political index with *Buy* and *Sell* where *Buy* (*Sell*) takes value of 1 if the transaction is a purchase (sale). IMR_{firm} and $IMR_{insider}$ are the inverse Mills ratios from the first stage of Heckman's model. *Past month (year) return* is the market-adjusted return of the given firm over the prior month (year, excluding the prior month). *Ln(Size)* is the natural logarithm of market capitalization. *Ln(Book_market)* is the natural logarithm of ratio of book value of common equity to market capitalization.

Table 5 reports the coefficient estimates for regression (8). Panel A shows the results of a model with only firm political indices and control variables. The coefficients on all interaction terms of firm political indices and *Sell* are negative and statistically significant at the 1% level, suggesting that increases in political indices are associated with higher informativeness of insider sales. One standard deviation increases in $PI^{candidates}_{firm}$, $PI^{strength}_{firm}$, PI^{power}_{firm}, and PI^{relate}_{firm} result in 0.32%, 0.25%, 0.35%, and 0.32% decreases, respectively, in the market-adjusted return in the (0,30) window for insider sales. However, I find no evidence that political connections are related to the informativeness of insider purchases. Even though all coefficients on interaction terms of firm political indices and *Buy* are positive, they are not statistically different from zero. My results are similar with the inclusion of month-year fixed effect to control for any time-series variation that might affect returns.

In Panel B, I use political indices for insiders instead of for firms. I find a similar result that insider political connections are significantly related to subsequent 30-trading day excess returns for insider sales while these relationships are positive but insignificant for insider purchases. The magnitudes are, however, smaller than in Panel A. One standard deviation increases in $PI^{candidates}_{insider}$, $PI^{strength}_{insider}$, $PI^{power}_{insider}$, and $PI^{relate}_{insider}$ result in 0.12%, 0.12%, 0.09%, and 0.09% decreases, respectively, in the excess return in the (0,30) window for insider sales. These results also hold when I add month-year fixed effect.

Cheng and Lo (2006) and Rogers (2008) find that the legal risk associated with insider sales is higher than insider purchases. Political connections may improve insider informativeness by providing protection to informed insider trades, thus the effect of political connections is stronger on the performance of insider sales. Consistent with my hypothesis that more informed trading by politically connected insiders is associated with their perception that SEC investigation

risk is reduced, I find that political connections are significantly related to abnormal returns for insider sales but not insider purchases.

Panel C of Table 5 shows the coefficient estimates when including both firm and insider political indices. The signs on all variables remain the same as in Panels A and B but the magnitude of interaction terms for insider political indices become slight smaller, which results in weaker *t*-statistics. The higher in magnitudes of interaction terms for firm political indices compared to ones for insider political indices also suggest that firm political connections have stronger effects on the performance of insider sales. As shown earlier, individual donors are less likely to maintain a long-term relationship with the candidates. Moreover, firms tend to have connections with politicians through many channels other than "hard money" contributions. The effects of individual insider relationships with the candidates are therefore weaker than ones between the firms and the candidates.

In Panel D of Table 5, I run model (8) with $PI_{combined}$ instead of PI_{firm} and $PI_{insider}$. The signs and the magnitudes on the main variables confirm that $PI_{combined}$ can resemble PI_{firm} and $PI_{insider}$. One standard deviation increases in $PI^{candidates}{}_{combined}$, $PI^{strength}{}_{conbined}$, $PI^{power}{}_{combined}$, and $PI^{relate}{}_{combined}$ result in 0.32%, 0.25%, 0.35%, and 0.32% decreases, respectively, in the excess return in the (0,30) window for insider sales. The relation between political connections and excess returns remains insignificant for insider purchases.

4.2. Which insiders benefit more from political connections?

By definition, corporate insiders include directors, senior officers, above-10% equity owner, or anyone who is affiliated with the firm and has access to private information about the

firm. However, the effects of political connections on insider trading for these different groups may vary. First, although they are under the same insider trading regulation, the level of corporate nonpublic information that they possess are different. While directors and officers are more likely to know more about corporate events and operations, other employees, while working in the same firm, may not have access to the same information. Large equity owners are even less likely to be informed. Second, the decision to make political donations, even under the firm's name, comes from directors and senior officers. Therefore, they are more likely to benefit from the political connections. If my hypothesis holds, I expect to see that the effects of political connections on insider trading performance are higher for the groups of directors and senior officers compared with the rest of the sample.

On the other hand, the board of directors is appointed to monitor the senior officers' behavior. Prior literature (Jensen and Meckling, 1976, Fama and Jensen, 1983, Rechner and Dalton, 1991, Pi and Timme, 1993) argues that there is a higher agency problem when a senior officer also holds a director position. Dual-roled insiders, therefore, are more likely to trade on their private information. If this hypothesis holds, I expect to see the effects on political connections to be even higher for insiders who hold the dual roles.

I then examine which types of insiders are more likely to trade on their private information when they have connections with politicians. In Table 6, I separate the sample into 4 different groups: (1) directors, (2) senior officers, (3) insiders who hold both director and senior officer positions, and (4) others, then run the baseline regression on each of these subsamples. (The details on the position list of each group are provided in Appendix C.) Consistent with my prediction, the coefficients on the interaction term of $PI_{combined}$ and Sell are negative and significant for the subsamples of directors, senior officers, and insiders with dual roles while being insignificant in

the last subsample. Moreover, the effect of political connections is the strongest in the sample of insiders who serve as both directors and senior officers. My finding is therefore consistent with the hypothesis that dual-roled, politically connected insiders are more likely to trade on their private information.

Overall, firms' political connections are strong predictors of abnormal returns for insider sales but not insider purchases. This finding is consistent with the hypothesis that politically connected corporate insiders perform more informed trades because they believe the risk of prosecution is lower due to their political connections.

4.3. Chamber effect

On average, Senate candidates receive higher total amounts of contributions than House candidates do. They are also supported by a larger numbers of firms and insiders[26]. In my sample, on average, a Senate candidate receives about $818,000 from 98 firms and 49 insiders while a typical House candidate receive about $232,000 from 69 firms and 11 insiders. Therefore, I hypothesize that the political connection effect should be greater for firms contributing to Senate candidates. I split each political index along House/Senate chambers. Specifically, for each political index, I create PI_{House} (PI_{Senate}) by multiplying the *Candidate* variable with a House (Senate) indicator that equals to one if the candidate is affiliated with House (Senate) and zero otherwise. I then rerun regression (8) by replacing each index with the respective PI_{House} and PI_{Senate}.

[26] See, for example, https://www.opensecrets.org/overview/

However, the correlation between PI_{House} and PI_{Senate} for each index is high. Putting these two variables into the same regression model may introduce a multicollinearity problem. To address this issue, I follow Cooper, Gulan and Ovtchinnikov (2010) and Corria (2014) and estimate a two-stage regression. In the first stage, I regress each of the House political indexes, $PI_{House,}$ on its respective Senate political index, $PI_{Senate,}$ and estimate the residual from this regression, called $PI_{House,res}$. In the second stage, I rerun regression (8) by replacing each PI with $PI_{House,res}$ and PI_{Senate}. Results from this second-stage regression is reported in Table 6, Panel A. I also repeat the same process to get $PI_{Senate,\ res}$ and PI_{House} and replace in regression (8). Results from this regression is reported in Table 6, Panel B.

Results from Table 7 shows that there is some incremental Senate effect beyond the House effect but insignificant incremental House effect beyond the Senate effect. The coefficients of the interaction between Sell and $PI_{House,res}$ are insignificant after controlling for PI_{Senate} (Panel A) but the coefficients on the interaction between Sell and $PI_{Senate,\ res}$ are significant even after controlling for PI_{House} (Panel B). Thus, even though political connections with each chamber have effects on the performance of insider sales, connections with Senate candidates show higher impact beyond that provided by connections with House candidates, which is consistent with my hypothesis. This may be because the five SEC commissioners as well as the judges of the judicial branch are confirmed by the Senate, after being selected by the President. The Senate are more likely to have some impact over the SEC investigation and enforcement. The coefficients on the interaction terms between Buy and political indexes for different chambers remain insignificant. Connection with either chamber has little effect on the performance of insider purchases.

4.4. Party effect

The FEC data show that Republican candidates receive higher total amounts of contributions than Democratic candidates do. An average Republican candidate gets over $414,000 from firms and insiders during an election campaign, compared to about $357,000 for a Democratic candidate. From the same mechanism as in the chamber effect test, connections with Republican candidates should have greater effects on insider trading. To test this hypothesis, I follow the procedure above and analogously calculate PI_{DEM} (PI_{REP}) by multiplying the *Candidate* variable with a DEM (REP) indicator, which is equal to one if the candidate is affiliated with the Democratic (Republican) party and zero otherwise for each political index. I also follow the two-stage regression and estimate $PI_{DEM, res}$ and $PI_{REP, res}$. I then rerun model (8) replacing each political index with new Democratic/Republican political indexes for the whole sample.

Results from this test are presented in Panel A of Table 8. There is an incremental Republican effect and an insignificant incremental Democrat effect. The coefficients on the interactions between Sell and $PI_{REP, res}$ are significant after controlling for PI_{DEM} (Panel A1) but the coefficients on the interactions between Sell and $PI_{DEM, res}$ are insignificant after controlling for PI_{REP} (Panel A2). Overall, connections with Republican candidates have effects on insider trade performance that are above and beyond ones with Democratic candidates.

However, Jayachandran (2006) finds a significant increase (decrease) in market value of firms contributing to Democrat (Republican) party at the announcement in 2001 that Senator Jim Jeffords switched from Republican Party to Democratic, which transferred control of the Senate from Republican to Democrat. Therefore, I hypothesize that the effect of Democrat/Republican political connections have different effects during times under different party control. To test this hypothesis, I divide the whole sample into three subsamples: (1) when Republicans control both

the House and the Senate, (2) when Republicans control the House and Democrats control the Senate, and (3) when Democrats control both the House and the Senate[27]. I perform the same test on each of the subsamples.

Panel B of Table 8 presents the results of the regression model (8) during the periods when Republicans control both the House and the Senate. During these periods, I find the same results as for the whole sample: the connections with Republican candidates show a stronger impact on the performance of insider sales. Conversely, in Panel D of Table 8, when Democrats control both the House and the Senate, I find a strong incremental Democrat effect and little incremental Republican effect. The coefficients on the interactions between Sell and $PI_{DEM,\ res}$ are significant after controlling for PI_{REP} (Panel D2) but the coefficients on the interactions between Sell and $PI_{REP,\ res}$ are insignificant after controlling for PI_{DEM} (Panel D1). However, as shown in Panel C, when there is a division of control (e.g., Republicans control the House and Democrats control the Senate), there is no incremental effect for either party. The coefficients on $PI_{REP,\ res}$ and $PI_{DEM,\ res}$ are insignificant when controlling for PI_{DEM} and PI_{REP}, respectively. I find no evidence that Democratic or Republican political connections are associated with higher performance for insider purchases across different subsamples. The results that connections with Republican candidates have greater impact I found for the whole sample may due to the fact that Republican Party control both chambers for longer time in my sample.

Overall, connections with both parties are associated with higher performance for insider trades, and connections to the party in control have larger effects on the performance of insider

[27] Throughout my whole sample of election cycle 1988 to election cycle 2016, there is no time with Democrat controlling House with Republican controlling Senate.

trades. When there is a division of control, it appears that connections to both parties have the same impact.

4.5. Robustness check for Performance regressions

Corporate insiders, especially ones with long-lived information advantage, tend to spread their trades within a few days then report them together in one filing to hide their private information from the market (Biggerstaff, Cicero, and Wintoki, 2015). Therefore, one might argue that trades in the same report contain the same information. By including all daily trades, signals from the informed trade may be duplicated, which has the potential to bias the test results. To ensure spreading insider trades does not drive my results, I aggregate all trades within one report and treat each report as one observation then rerun the baseline regression (8) on this new sample.

I report the results for the robustness test in Table 9. I use the date of the first trade as the report's transaction date in Panel A and the date of the last trade in Panel B. The coefficients on the main variables do not change significantly compared to ones in the baseline regression. There is a significantly negative relation between politically connections and the subsequent 30-day abnormal return following insider sales while this relation for insider purchases is insignificant. In short, my results hold after adjusting for multiple trades in an insider trading report.

5. Trading behavior of politically connected insiders

This section examines whether politically connected insiders are more likely to engage in legally riskier insider trading. I have two sets of tests. First, I examine the timing of insider trades. Specifically, I test if (a) politically connected insiders are more likely to trade closer to earnings

announcement dates that non-politically connected insiders and (b) if politically connected insiders are more likely to trade in traditional blackout periods than non-politically connected insiders. Second, I examine timing of insider trading reports. Specifically, I test whether politically connected insiders are more likely to report their trades later than the SEC deadlines.

5.1. The timing of insider trades

The vast majority of SEC charges for insider trading involves the leakage of nonpublic information right before a price-sensitive event, for example, future mergers, releases of analyst reports, and releases of earnings announcements with earnings surprises.[28] Thus, I first test if politically connected insiders are more likely to trade closer to an earnings announcement. I begin by computing, for every insider trade, the number of days prior to the next earnings date. I therefore test whether politically connected insiders are more likely to have the same trading patterns as the charged insider trading cases from the SEC. Specifically, I run the following OLS regression on the sample of all insider trades:

$$Days\ to\ earnings = \alpha + \beta_1 PI_{combined} * Buy + \beta_2 PI_{combined} * Sell + \gamma_1 Buy + \gamma_2 Sell + \gamma_3 IMR_{firm} + \gamma_4 IMR_{insider} + \gamma_5 Ln(Size) + \gamma_6 Institutional\ Ownership + \gamma_7 Abs(Announcement\ Return) + \gamma_8 CEO\ duality + \gamma_9 Board\ independence + \varepsilon \quad (9)$$

where the dependent variable *Days to earnings* is the number of days between the insider's trade and the subsequent earnings announcement date. I add *Size*, *Institutional Ownership,* and the absolute value of *Announcement Return* to control for information asymmetry. A larger firm ora firm with higher institutional ownership should have lower level of information asymmetry (Stoll,

[28] SEC Enforcement Actions: Insider Trading Cases https://www.sec.gov/spotlight/insidertrading/cases.shtml

1978, Chari, Jagannathan, and Ofer, 1988, Brennan and Subrahmanyam, 1995) while a large absolute value of announcement return is associated with higher information asymmetry (Yohn, 1998). Since (legally) risky insider trading involves trading on the private information, I expect to see this behavior more in firms with higher information asymmetry. Moreover, the literature on the effects of corporate governance shows that better corporate governance deters risky insider trading patterns (see, for example, Fidrmuc, Goergen, and Renneboog, 2006, Ravina and Sapienza, 2010, Jagolinzer, Larcker, and Taylor, 2011, Skaife, Veenman, and Wangerin, 2013, and Dai, Fu, Kang, and Lee, 2016). For 2 firms with the same political indexes, insiders from the firm with better corporate governance might be less likely to engage in aggressive trading. Therefore, I control for corporate governance by adding *CEO dualit* and *Board independence*[29] as independent variables. A firm whose CEO also sits on the board of directors has worse corporate governance while a higher proportion of independent directors in the board of directors implies better corporate governance (Brickley, Coles, and Terry, 1994, Brickley, Coles, and Jarrell, 1997, Gillan, 2006).

Table 10 reports the coefficient estimates for the OLS regression of model (9) with the number of days to the next earnings announcement as the dependent variable. In the specifications (1), (3), (5), and (7), I do not include controls for information asymmetry and corporate governance. The coefficients on $PI^{candidates}_{combined}$, $PI^{strength}_{combined}$, $PI^{power}_{combined}$, and $PI^{relate}_{combined}$ are negative and statistically significant for both purchases and sales, suggesting that, on average, political connections are associated with the insider trading, both buying and selling, closer to the next earnings announcement. A one standard deviation increase in firm political indices results in a 0.47 to 0.61 decrease in number of days from transaction date to the next earnings announcement

[29] The data on CEO duality are only available after 1992 and data on Board independence are available after 1996. Hence, in the model including them, I lose some observations.

for insider purchases and a 0.74 to 0.77 decrease for insider sales. Political indices for the insider also have a significant effect on how close his/her sales are to the next earnings news release. My results hold even after including variables controlling for information asymmetry and corporate governance (specifications (2), (4), (6), and (8)). Politically connected insiders are more likely to trade closer to the next earnings announcement.

My next timing test exploits the fact that many firms impose blackout windows, during which most of the employees, including corporate insiders, are not allowed to trade company stock. A survey by Bettis, Coles and Lemmon (2000) shows that 92% of responding firms have some policies restricting insider trading and 78% have detailed blackout periods. The most common blackout period (see Bettis, Coles, and Lemmon, 2000) is the window from day -10 to +3 around the earnings announcements. Thus, I define this window as a period where insider trading may be more likely to attract attention from regulators. Therefore, while there is some overlap with the previous tests (e.g., trading just prior to earnings will imply a short period until earnings announcement and be in the traditional blackout period) I examine differences in politically connected and non-politically connected insiders willingness to trade in the -10 to +3 window. Specifically, I estimate the following logit regression:

$$Sensitive\ trading = \beta_1 PI_{combined} * Buy + \beta_2 PI_{combined} * Sell + \gamma_1 Buy + \gamma_2 Sell + \gamma_3 IMR_{firm} + \gamma_4 IMR_{insider} + \gamma_5 Ln(Size) + \gamma_6 Institutional\ Ownership + \gamma_7 Abs(Announcement\ Return) + \gamma_8 CEO\ duality + \gamma_9 Board\ independence + \varepsilon \quad (10)$$

where the dependent variable *Sensitive trading* is an indicator variables that takes value one if a trade is executed in the t-10 to t+3 trading day window around an earnings announcement. All other variables are the same as described in model (9).

Table 11 reports the coefficient estimates (Panel A) and marginal effects (Panel B) for the logit model (10). The coefficients on political indices for firms are all positive and significant for both purchases and sales. The higher the level of connections between the firms and politicians, the more likely that the insider trades during the windows that can be risky to trade. A one standard deviation increase in each of the firm political indices leads to an increase of 0.12% to 0.23%[30] in probability of a purchase and an increase of 0.24% to 0.34% in probability of a sale occurring in the sensitive window centered on its mean. I also find positive and significant coefficients for all insider political indices for sales. Even after controlling for the political connections of the firms, insiders with implicit political connections are more likely to sell in the (t-10, t+3) windows around an earnings announcement. My results are robust after including variables that help capture variation in information asymmetry and corporate governance.

5.2. The timing of insider trading reports

Before August 2002, the SEC required corporate insiders to report their trades no later than the 10th day of the next calendar month. This requirement was shortened to two trading days with the introduction of the Sarbanes-Oxley Act ('SOX'). In the past, even when the SEC noticed violations of this disclosure requirement, there was rarely any serious legal consequence for disobeying insiders. However, with the increase in the incidents of late filings, the SEC has

[30] All political indices are standardized to mean 0 and standard deviation 1. Therefore, the marginal effects show the changes in dependent variable with one-standard deviation change in political indices.

highlighted the importance of the filing provisions. In September 2014, the SEC filed charges against 33 corporate insiders with the total penalty of $2.6 million.[31] This is an action from the SEC to emphasize that they would start vigorously monitoring these types of violations.[32]

On the other hand, research has found that corporate insiders purposefully delay reporting their trades to hide their nonpublic information. In this way, they can extract rents using this private information before it is priced by the market (Cheng, Nagar and Rajan, 2007). Consistent with this hypothesis, Cline and Houston (2018) find that trades in violation earn significant abnormal returns in the window from trading date to reporting date. Therefore, if politically connected insiders trade on their private information, I expect connected insiders to be more likely to purposefully delay reporting their trades. I examine the likelihood of politically connected insiders violating trading reporting requirements from the SEC. A trade report is considered late if the day the SEC receives the report is after the 10th day of the next calendar month from the transaction day before August 2002 and if the number of trading days between transaction day and the day the SEC receives the report is more than 2 days after August 2002. Consistent with Cline and Houston (2018), 17.76% of the trades in my sample are reported after the SEC deadline. Specifically, I estimate the following logit regression.

$$Late\ reporting = \alpha + \beta_1 PI_{combined} * Buy + \beta_2 PI_{combined} * Sell + \gamma_1 Buy + \gamma_2 Sell + \gamma_3 IMR_{firm} + \gamma_4 IMR_{insider} + \gamma_5 Ln(Size) + \gamma_6 Institutional\ Ownership + \gamma_7 Abs(Announcement\ Return) + \gamma_8 CEO\ duality + \gamma_9 Board\ independence + \varepsilon$$

[31] See, for example, "SEC Targets Timing of Insiders' Trade Notices", The Wall Street Journal, September 10, 2014 https://www.wsj.com/articles/sec-reaches-settlements-with-insiders-over-late-filings-1410367803

[32] See, for example, "The SEC to Insiders: When We Say File Your Section 16(a) Forms, We Mean It". Woodruff Sawyer, October 15, 2014 https://woodruffsawyer.com/do-notebook/section-16a/

(11)

where the dependent variable *Late reporting* is an indicator variable that takes value one if the inside reports a trade after the reporting deadline, and takes value zero otherwise.

Table 12 reports the coefficient estimates for the logit model of whether an insider trade is reported late on political connection indices. Consistent with the findings in the timing tests, I find positive and significant coefficients for all political connection indices on both purchases and sales. Insiders are more likely to report their trades late when they have connections with the politicians. A one standard deviation increase in each of comprehensive political connection indices is associated with an increase of 1.89% to 2.10% in probability of a sale and an increase of 0.66% to 1.15% in probability of a purchase being reported after the deadline, centered around its mean. Again, results from this test are consistent with the hypothesis that political connections have more impact on insider sales since these trades are associated with higher litigation risk. These findings also hold when I control for information asymmetry and corporate governance.

In short, the results in this section provide evidence supporting my hypothesis that politically connected insiders trade more aggressively. Politically connected insiders are more likely to profit themselves by performing trades that would normally call attention from the SEC. They trade more closely to earnings announcements, they are more likely to trade in the most common blackout period, and they are less likely to file timely reports.

6. Conclusion

I hypothesize that politically connected insiders are more likely to engage in legally risky insider trading because they believe their political relationships will help protect them from SEC

investigation and prosecution. Consistent with my hypothesis, political connections are positively related to the trade performance of connected insiders, especially senior officers who also hold a director position. Furthermore, I find this association is driven by insider sales consistent with the view that insider sales are associated with higher legal risk.

Among all connections with politicians, connections with Senate candidates have a greater effect on insider trading behavior than ones with House candidates. Senators have more control over the SEC since they are more involved in appointing the SEC commissioners. Connections with Republican (Democratic) candidates matter more when the Republican (Democratic) Party has control over both the House and the Senate.

Further tests provide evidence that politically connected insiders trade more riskily. They trade closer to the earnings announcement releases, trade during the most common blackout windows, and are more likely to miss the trading reporting requirements. These behaviors are shown to trigger SEC insider trading investigations.

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Table 1: Contribution characteristics

This table presents firms' (Panel A) and corporate insiders' (Panel B) contribution characteristics for the sample of firms-insiders from Insider Trading file (Thomson Reuters) for each election cycle from 1980 to 2016: total number of firms (insiders), number of firms (insiders) that make political contributions, total dollar value of contributions per firm (insider), average dollar value of contribution per firm (insider) per candidate, number of candidates supported per firm (per insider). Data on political contributions are from the Federal Election Commission (FEC).

Panel A: Firms

Election cycle	Total number	Number donating	% of firms donating	Total $ donating	Average $/candidate						Number candidates donated
					Mean	Min	25th pct	Median	75th pct	Max	
1980		613		28,976	565	4	250	500	700	4,500	47.63
1982		729		34,856	814	25	500	500	1,000	2,500	46.53
1984		802		41,966	1,636	20	500	500	1,000	6,000	49.68
1986	5,798	891	0.15	49,191	906	5	350	500	1,000	7,000	47.60
1988	8,637	921	0.11	55,814	1,015	5	350	500	1,000	8,000	46.90
1990	8,632	897	0.10	57,801	1,081	10	500	1,000	1,500	9,000	43.84
1992	8,809	883	0.10	69,346	1,135	10	500	1,000	1,800	9,000	47.37
1994	10,449	831	0.08	77,288	1,230	15	500	1,000	2,000	10,000	48.31
1996	11,603	841	0.07	83,011	1,415	15	500	1,000	2,000	10,000	50.19
1998	12,700	816	0.06	81,714	1,415	5	500	1,000	2,000	10,000	47.54
2000	12,519	776	0.06	99,567	1,662	25	1,000	1,000	2,500	10,000	48.68
2002	10,423	737	0.07	108,479	1,730	25	1,000	1,000	3,000	10,000	47.65
2004	9,433	754	0.08	124,786	2,055	8	1,000	2,000	3,750	10,000	45.49
2006	9,291	747	0.08	150,277	2,366	49	1,000	2,000	4,250	10,000	48.07
2008	9,534	747	0.08	174,947	2,499	25	1,000	2,000	5,000	10,000	52.79
2010	8,012	772	0.10	172,502	2,646	25	1,000	2,400	5,000	10,000	52.46
2012	7,545	767	0.10	197,654	2,794	40	1,000	2,500	5,000	10,000	54.98
2014	7,164	737	0.10	233,801	2,943	50	1,500	2,500	5,000	10,000	59.84
2016	6,735	726	0.11	234,800	3,110	34	1,500	3,000	5,000	10,000	58.86

Table 1: Contribution characteristics (continued)

Panel B: Insiders

Election cycle	Total number	Number donating	% of insiders donating	Total $ donating	Average $/candidate							Number candidates donated
					Mean	Min	25th pct	Median	75th pct	99th pct	Max	
1980		15,525		1,970	617	5	250	500	1,000	2,000	5,000	1.99
1982		10,657		3,088	826	50	500	1,000	1,000	2,000	3,000	2.04
1984		14,108		3,089	824	250	500	1,000	1,000	2,000	6,000	2.09
1986	29,965	16,554	0.55	2,815	845	250	500	1,000	1,000	2,000	25,000	2.04
1988	76,098	21,574	0.28	3,169	864	200	500	1,000	1,000	2,000	23,000	2.10
1990	75,372	27,364	0.36	2,869	680	200	300	500	1,000	2,000	9,070	2.24
1992	73,908	35,964	0.49	3,500	702	200	250	500	1,000	2,000	25,000	2.60
1994	97,833	35,925	0.37	3,525	745	200	300	500	1,000	2,000	25,000	2.73
1996	106,374	43,145	0.41	4,161	774	200	450	750	1,000	2,000	80,000	2.97
1998	109,388	38,330	0.35	4,314	809	200	400	700	1,000	3,000	25,000	2.85
2000	101,178	47,947	0.47	7,074	888	160	500	1,000	1,000	3,000	42,000	3.08
2002	83,447	32,772	0.39	6,388	903	200	500	1,000	1,000	3,000	39,764	2.51
2004	77,111	28,486	0.37	4,492	1,128	58	300	750	1,250	4,000	37,500	2.25
2006	77,444	44,520	0.57	10,418	1,150	38	500	1,000	1,500	4,800	21,800	3.46
2008	75,476	48,176	0.64	11,118	1,265	200	500	1,000	2,000	4,600	50,000	3.92
2010	61,224	39,505	0.65	12,359	1,230	200	500	1,000	2,000	4,800	12,000	3.92
2012	62,084	44,429	0.72	20,185	1,255	200	500	1,000	2,000	5,000	17,500	4.27
2014	61,081	35,260	0.58	45,819	1,463	200	500	1,000	2,000	5,000	15,800	4.17
2016	61,141	50,767	0.83	88,068	1,458	5	500	1,000	2,500	5,400	13,500	17.33

Table 2: Political index correlations

This table presents the correlations coefficients across eight political connection indices: $PI^{candidates}_{firm}$, $PI^{strength}_{firm}$, PI^{power}_{firm}, PI^{relate}_{firm}, $PI^{candidates}_{insider}$, $PI^{strength}_{insider}$, $PI^{power}_{insider}$, $PI^{relate}_{insider}$ for the sample of 45,385 firm-election cycle observations (Panel A), 218,589 insider-election cycle observations (Panel B) and 232,524 insider-firm-election cycle observations (Panel C) for the period of 1986 to 2016. The index calculations are explained in Section 3.2.

Panel A: All firm-cycle; N = 45,385

	$PI^{candidates}_{firm}$	$PI^{strength}_{firm}$	PI^{power}_{firm}	PI^{relate}_{firm}
$PI^{candidates}_{firm}$	1.000	0.9132	0.9602	0.9739
$PI^{strength}_{firm}$		1.000	0.8453	0.8791
PI^{power}_{firm}			1.000	0.9812
PI^{relate}_{firm}				1.000

Panel B: All insider-cycle; N = 218,589

	$PI^{candidates}_{insider}$	$PI^{strength}_{insider}$	$PI^{power}_{insider}$	$PI^{relate}_{insider}$
$PI^{candidates}_{insider}$	1.000	0.5135	0.5497	0.5827
$PI^{strength}_{insider}$		1.000	0.5262	0.5590
$PI^{power}_{insider}$			1.000	0.7510
$PI^{relate}_{insider}$				1.000

Panel C: All insider-firm-cycle; N = 232,524

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$PI^{candidates}_{firm}$ (1)	1.000	0.9132	0.9602	0.9739	0.0392	0.0170	0.0214	0.0253
$PI^{strength}_{firm}$ (2)		1.000	0.8453	0.8791	0.0291	0.0117	0.0117	0.0176
PI^{power}_{firm} (3)			1.000	0.9812	0.0420	0.0199	0.0247	0.0284
PI^{relate}_{firm} (4)				1.000	0.0402	0.0182	0.0226	0.0273
$PI^{candidates}_{insider}$ (5)					1.000	0.5135	0.5497	0.5827
$PI^{strength}_{insider}$ (6)						1.000	0.5262	0.5590
$PI^{power}_{insider}$ (7)							1.000	0.7510
$PI^{relate}_{insider}$ (8)								1.000

Table 3: Descriptive statistics

This table presents the summary statistics for the sample of daily corporate insiders' trades (Panel B and Panel C) and firms (Panel A) from 1986 to 2016. The whole sample are divided into two categories: observations with all political connection indices equal 0 and observations with at least one non-zero political connection index. Variables definitions are in Appendix A. In Panel A, the firm-year is classified as having non-zero political connection index if at least one insider of the firm has one non-zero political connection index. The last column presents the difference between the mean values of the two categories. The t-test statistics of the differences are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Variable	All political connection indices = 0			At least one political connection index ≠ 0			Difference (2)-(1) (t-test)
	N	Mean (1)	Standard deviation	N	Mean (2)	Standard deviation	
Panel A: Firm-year level							
Ln(Book_market)	61,857	-0.749	0.89	12,442	-0.860	0.82	-0.111***(-13.60)
Ln(Size)	61,857	5.528	1.85	12,442	7.503	2.02	1.975***(100.88)
Institutional ownership	61,857	0.257	0.31	12,442	0.419	0.34	0.162***(49.31)
CEO duality	61,857	0.327	0.47	12,442	0.705	0.46	0.378***(83.31)
Board independence	61,857	0.178	0.32	12,442	0.468	0.38	0.291***(79.80)
IMR_{firm}	61,857	1.333	1.16	12,442	0.962	0.82	-0.372***(-42.68)
$IMR_{insider}$	61,857	0.295	0.57	12,442	0.319	0.54	0.024***(4.48)
$PI^{candidates}_{firm}$	61,857	0	0	12,442	69.929	125.54	
$PI^{strength}_{firm}$	61,857	0	0	12,442	3876.150	10111.13	
PI^{power}_{firm}	61,857	0	0	12,442	446.957	698.80	
PI^{relate}_{firm}	61,857	0	0	12,442	19.824	32.63	
$PI^{candidates}_{insider}$	61,857	0	0	12,442	0.167	0.88	
$PI^{strength}_{insider}$	61,857	0	0	12,442	0.404	10.30	
$PI^{power}_{insider}$	61,857	0	0	12,442	0.138	3.05	
$PI^{relate}_{insider}$	61,857	0	0	12,442	0.007	0.13	

Table 4: Univariate performance of politically connected insider trades

This table presents average 30 trading day adjusted returns following insider trades. In Panel A, the returns are adjusted for the value-weighted market return. In Panel B, the returns are adjusted for the return on the NYSE size decile portfolio, which is formed at the beginning of each month. In Panel C, returns are adjusted using DGTW method. In each panel, the whole sample are divided into two categories: observations with all political connection indices equal 0 and observations with at least one non-zero political connection index. The last column presents the difference between the mean values of the two categories. The t-test statistics of the differences are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Variable	All political connection indices = 0			At least one political connection index ≠ 0			Difference (2)-(1) (t-test)
	N	Mean (1)	Standard deviation	N	Mean (2)	Standard deviation	
Panel A: Market adjusted returns							
Purchases	293,680	4.799	22.583	32,106	3.218	17.857	-1.581*** (-14.64)
Sales	426,733	-0.427	14.025	63,401	-0.852	21.077	-0.425*** (-4.92)
Panel B: Size-adjusted returns							
Purchases	293,680	4.148	22.345	32,106	3.057	17.759	-1.091*** (-10.16)
Sales	426,733	-0.463	14.027	63,401	-0.926	20.907	-0.463*** (-5.40)
Panel C: DGTW-adjusted returns							
Purchases	293,680	3.013	22.201	32,106	2.791	17.790	-0.222* (-1.92)
Sales	426,733	-0.727	14.126	63,401	-1.531	20.764	-0.804*** (-9.43)

Table 5: Performance of politically connected insider trades

This table presents the results from OLS regressions of insider trades' abnormal returns. The dependent variable is calculated as the cumulated market-adjusted abnormal returns of a stock from the transaction day to day 30 after an insider trade and is expressed in percents. PI_{firm} is political connection index for the firm. $PI_{insider}$ is political connection index for the insider. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. Political indices are then standardized. The remaining variables are defined in Appendix A. *Buy* is equal one if the insider buys the stock and zero otherwise. *Sell* is equal one is the insider sells the stock and zero otherwise. IMR_{firm} and $IMR_{insider}$ are the inverse Mills ratio calculated from Heckman's (1979) selection model. The results of the model's first stages are reported in Appendices C and D. Month-year fixed effect is included when indicated. Standard errors are clustered at the firm level. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Table 5: Performance of politically connected insider trades (continued)

Panel A: Political indices for firms only								
	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
PI_{firm}*Buy	0.078	0.101	0.061	0.089	0.058	0.101	0.042	0.084
	(1.07)	(1.40)	(1.21)	(1.36)	(0.63)	(1.13)	(0.48)	(1.00)
PI_{firm}*Sell	-0.319***	-0.295***	-0.254***	-0.224***	-0.345***	-0.312***	-0.321***	-0.291***
	(-6.68)	(-6.24)	(-5.94)	(-5.36)	(-6.13)	(-5.71)	(-6.05)	(-5.69)
Buy	7.174***	3.513***	7.105***	3.523***	7.224***	3.509***	7.202***	3.512***
	(20.35)	(20.77)	(20.53)	(20.81)	(20.53)	(20.76)	(20.30)	(20.77)
Sell	3.897***		3.818***		3.818***		3.926***	
	(9.73)		(9.71)		(9.71)		(9.74)	
IMR_{firm}	0.496***	0.496***	0.486***	0.496***	0.485***	0.495***	0.485***	0.495***
	(5.65)	(5.95)	(5.66)	(5.96)	(5.64)	(5.94)	(5.65)	(5.95)
Past month return	0.049	0.040	0.049	0.040	0.049	0.040	0.049	0.040
	(1.31)	(0.11)	(1.30)	(0.11)	(1.31)	(0.12)	(1.30)	(0.11)
Past year return	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***
	(5.93)	(4.25)	(5.90)	(4.22)	(5.94)	(4.26)	(5.92)	(4.25)
Ln(Size)	-0.509***	-0.472***	-0.495***	-0.457***	-0.519***	-0.479***	-0.515***	-0.475***
	(-9.12)	(-8.54)	(-9.12)	(-8.54)	(-9.16)	(-8.55)	(-9.12)	(-8.52)
Ln(Book_market)	0.826***	0.479***	0.834***	0.488***	0.822***	0.477***	0.821***	0.476***
	(6.22)	(3.58)	(6.29)	(3.66)	(6.18)	(3.56)	(6.18)	(3.55)
Month-year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	815,920	815,920	815,920	815,920	815,920	815,920	815,920	815,920
Adjusted R2	0.027	0.046	0.027	0.046	0.027	0.046	0.027	0.046

Table 5: Performance of politically connected insider trades (continued)

Panel B: Political indices for insiders only								
	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
$PI_{insider}$*Buy	0.035	0.035	0.010	0.011	0.028	0.025	0.031	0.024
	(1.00)	(1.00)	(0.43)	(0.44)	(0.89)	(0.67)	(1.25)	(0.89)
$PI_{insider}$*Sell	-0.119***	-0.101***	-0.117*	-0.133**	-0.095**	-0.097**	-0.088**	-0.099**
	(-3.15)	(-2.79)	(-1.82)	(-2.14)	(-2.08)	(-2.00)	(-1.97)	(-1.98)
Buy	8.068***	3.458***	8.053***	3.460***	8.056***	3.459***	8.057***	3.459***
	(28.09)	(20.31)	(28.10)	(20.31)	(28.10)	(20.31)	(28.10)	(20.31)
Sell	4.839***		4.822***		4.825***		4.826***	
	(14.76)		(14.73)		(14.74)		(14.74)	
IMR_{firm}	0.121	0.118	0.124	0.123	0.124	0.123	0.124	0.123
	(1.22)	(1.24)	(1.25)	(1.29)	(1.26)	(1.29)	(1.25)	(1.29)
Past month return	0.050	0.041	0.050	0.041	0.050	0.041	0.050	0.041
	(0.40)	(0.22)	(0.40)	(0.22)	(0.40)	(0.22)	(0.40)	(0.22)
Past year return	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***
	(6.16)	(4.48)	(6.16)	(4.47)	(6.16)	(4.48)	(6.16)	(4.47)
Ln(Size)	-0.577***	-0.544***	-0.575***	-0.541***	-0.575***	-0.542***	-0.575***	-0.542***
	(-9.90)	(-8.37)	(-9.87)	(-8.35)	(-9.88)	(-8.36)	(-9.88)	(-8.36)
Ln(Book_market)	0.752***	0.406***	0.754***	0.408***	0.754***	0.408***	0.753***	0.407***
	(5.88)	(3.13)	(5.90)	(3.14)	(5.89)	(3.14)	(5.89)	(3.14)
Month-year FE	NO	YES	NO	YES	NO	YES	NO	YES
Observations	815,920	815,920	815,920	815,920	815,920	815,920	815,920	815,920
Adjusted R2	0.026	0.046	0.026	0.046	0.026	0.046	0.026	0.046

Table 5: Performance of politically connected insider trades (continued)

Panel C: Political indices for both firms and insiders								
	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
PI_{firm}*Buy	0.076	0.102	0.058	0.089*	0.057	0.104	0.041	0.086
	(1.05)	(1.43)	(1.17)	(1.76)	(0.62)	(1.16)	(0.48)	(1.03)
PI_{firm}*Sell	-0.318***	-0.294***	-0.255***	-0.275***	-0.346***	-0.313***	-0.323***	-0.293***
	(-6.63)	(-6.22)	(-5.91)	(-5.37)	(-6.16)	(-5.72)	(-6.03)	(-5.70)
$PI_{insider}$*Buy	0.039	0.040	0.018	0.019	0.033	0.031	0.034	0.028
	(1.12)	(1.13)	(1.03)	(1.04)	(1.03)	(0.83)	(1.34)	(1.03)
$PI_{insider}$*Sell	-0.099***	-0.082**	-0.082***	-0.082**	-0.089**	-0.071*	-0.079*	-0.079**
	(-2.70)	(-2.25)	(-2.62)	(-1.99)	(-2.31)	(-1.80)	(-1.74)	(-2.05)
Buy	7.187***	3.514***	7.104***	3.525***	7.225***	3.511***	7.205***	3.514***
	(20.35)	(20.77)	(20.52)	(20.81)	(20.28)	(20.76)	(20.29)	(20.77)
Sell	3.905***		3.811***		3.948***		3.924***	
	(9.73)		(9.68)		(9.76)		(9.73)	
IMR_{firm}	0.484***	0.495***	0.485***	0.496***	0.483***	0.494***	0.484***	0.495***
	(5.63)	(5.93)	(5.64)	(5.95)	(5.62)	(5.93)	(5.63)	(5.93)
$IMR_{insider}$	0.114	0.120	0.111	0.122	0.116	0.124	0.115	0.124
	(1.15)	(1.26)	(1.13)	(1.27)	(1.17)	(1.29)	(1.16)	(1.29)
Past month return	0.049	0.040	0.049	0.049	0.049	0.040	0.049	0.040
	(0.31)	(0.12)	(0.31)	(0.12)	(0.32)	(0.12)	(0.31)	(0.11)
Past year return	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***
	(5.93)	(4.25)	(5.90)	(4.22)	(5.95)	(4.26)	(5.93)	(4.25)
Ln(Size)	-0.517***	-0.476***	-0.500***	-0.459***	-0.525***	-0.481***	-0.521***	-0.477***
	(-9.19)	(-8.59)	(-9.17)	(-8.57)	(-9.21)	(-8.57)	(-9.18)	(-8.55)
Ln(Book_market)	0.817***	0.475***	0.828***	0.486***	0.815***	0.475***	0.814***	0.473***
	(6.17)	(3.55)	(6.26)	(3.64)	(6.14)	(3.55)	(6.14)	(3.53)
Month-year FE	NO	YES	NO	YES	NO	YES	NO	YES
Observations	815,920	815,920	815,920	815,920	815,920	815,920	815,920	815,920
Adjusted R2	0.027	0.046	0.027	0.046	0.027	0.046	0.027	0.046

Table 5: Performance of politically connected insider trades (continued)

Panel D: Combined political indices								
	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
$PI_{combined}$*Buy	0.074	0.100	0.059	0.090*	0.054	0.101	0.038	0.084
	(1.02)	(1.39)	(1.18)	(1.76)	(0.95)	(1.12)	(0.44)	(1.00)
$PI_{combined}$*Sell	-0.322***	-0.297***	-0.251***	-0.226***	-0.348***	-0.314***	-0.323***	-0.294***
	(-6.68)	(-6.27)	(-5.94)	(-5.39)	(-6.14)	(-5.74)	(-6.04)	(-5.72)
Buy	7.175***	3.516***	7.104***	3.525***	7.224***	3.512***	7.202***	3.515***
	(20.35)	(20.77)	(20.52)	(20.81)	(20.29)	(20.77)	(20.28)	(20.77)
Sell	3.892***		3.810***		3.945***		3.919***	
	(9.71)		(9.68)		(9.76)		(9.72)	
IMR_{firm}	0.484***	0.495***	0.485***	0.496***	0.483***	0.494***	0.484***	0.495***
	(5.63)	(5.94)	(5.64)	(5.95)	(5.62)	(5.93)	(5.63)	(5.94)
$IMR_{insider}$	0.117	0.125	0.112	0.122	0.115	0.124	0.115	0.124
	(1.18)	(1.30)	(1.13)	(1.27)	(1.16)	(1.30)	(1.16)	(1.30)
Past month return	0.049	0.040	0.049	0.040	0.049	0.040	0.049	0.040
	(0.31)	(0.12)	(0.31)	(0.12)	(0.32)	(0.12)	(0.31)	(0.11)
Past year return	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***	0.014***	0.010***
	(5.93)	(4.25)	(5.90)	(4.22)	(5.95)	(4.26)	(5.93)	(4.25)
Ln(Size)	-0.515***	-0.474***	-0.500***	-0.458***	-0.524***	-0.480***	-0.520***	-0.477***
	(-9.17)	(-8.57)	(-9.17)	(-8.57)	(-9.21)	(-8.57)	(-9.17)	(-8.54)
Ln(Book_market)	0.819***	0.477***	0.828***	0.486***	0.815***	0.475***	0.814***	0.474***
	(6.18)	(3.56)	(6.26)	(3.64)	(6.14)	(3.54)	(6.14)	(3.54)
Month-year FE	NO	YES	NO	YES	NO	YES	NO	YES
Observations	815,920	815,920	815,920	815,920	815,920	815,920	815,920	815,920
Adjusted R2	0.027	0.046	0.027	0.046	0.0267	0.046	0.0267	0.046

Table 6: Performance of politically connected insider trades for different groups of insiders

This table presents the results from OLS regressions of insider trades' abnormal returns for different groups of insiders. The dependent variable is calculated as the cumulated market-adjusted abnormal returns of a stock from the transaction day to day 30 after an insider trade and is expressed in percents. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. Political indices are then standardized. The remaining variables are defined in Appendix A. Every specification includes all controls in Table 4. Month-year fixed effect is included when indicated. Standard errors are clustered at the firm level. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

	$PI^{candidates}$	$PI^{strength}$	PI^{power}	$PI^{related}$
	(1)	(2)	(3)	(4)
Panel A: Directors (Observations = 447,600)				
$PI_{combined}$*Buy	0.104	0.085	0.121	0.113
	(1.40)	(1.56)	(1.35)	(1.25)
$PI_{combined}$*Sell	-0.273***	-0.300***	-0.289***	-0.258***
	(-3.96)	(-4.49)	(-3.62)	(-3.29)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel B: Officers (Observations = 358,633)				
$PI_{combined}$*Buy	0.215	0.238	0.189	0.177
	(1.58)	(1.33)	(1.17)	(1.16)
$PI_{combined}$*Sell	-0.369***	-0.318***	-0.388***	-0.366***
	(-4.50)	(-4.34)	(-4.17)	(-3.95)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel C: Dual roles (Observations = 144,289)				
$PI_{combined}$*Buy	0.175	0.299*	0.316**	0.301**
	(1.57)	(1.78)	(2.11)	(2.04)
$PI_{combined}$*Sell	-0.404***	-0.432***	-0.426***	-0.417***
	(-5.60)	(-5.25)	(-5.14)	(-5.12)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel D: Others (Observations = 153,976)				
$PI_{combined}$*Buy	0.079	0.022	0.066	0.015
	(0.35)	(0.16)	(0.20)	(0.06)
$PI_{combined}$*Sell	-0.111	-0.069	-0.088	-0.044
	(-0.63)	(-0.42)	(-0.49)	(-0.25)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES

Table 7: Performance regressions for House/Senate political indexes

This table presents the results from OLS regressions of insider trades' abnormal returns. The dependent variable is calculated as the cumulated market-adjusted abnormal returns of a stock from the transaction day to day 30 after an insider trade and is expressed in percents. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. The House (Senate) political indexes are calculated by multiplying each equation (1) to (4) with an indicator variable equal to one if the candidate is affiliated with the House (Senate) and zero otherwise. The House (Senate) residual political indexes are the residual from the regression of House (Senate) political indexes on Senate (House) measure of the same indexes. Political indices are then standardized. The remaining variables are defined in Appendix A. Every specification includes all controls in Table 4. Month-year fixed effect is included when indicated. Standard errors are clustered at the firm level. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

	$PI^{candiates}$	$PI^{strength}$	PI^{power}	$PI^{related}$
	(1)	(2)	(3)	(4)
Panel A: Senate, House residual				
$PI_{combined,\ Senate}$*Buy	0.086	0.082	0.078	0.063
	(1.37)	(1.58)	(1.06)	(0.89)
$PI_{combined,\ Senate}$*Sell	-0.278***	-0.313***	-0.293***	-0.260***
	(-6.37)	(-5.18)	(-5.53)	(-5.70)
$PI_{combined,\ House\ residual}$*Buy	0.046	0.080	0.055	0.049
	(0.52)	(1.31)	(0.55)	(0.57)
$PI_{combined,\ House\ residual}$*Sell	-0.147	-0.125	-0.145	-0.137
	(-0.93)	(-0.52)	(-0.83)	(-0.58)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel B: House, Senate residual				
$PI_{combined,\ House}$*Buy	0.109	0.054	0.102	0.094
	(1.28)	(0.72)	(1.14)	(0.97)
$PI_{combined,\ House}$*Sell	-0.318***	-0.326***	-0.323***	-0.311***
	(-6.38)	(-5.52)	(-6.03)	(-5.86)
$PI_{combined,\ Senate\ residual}$*Buy	0.081	0.047	0.088	0.086
	(0.76)	(0.58)	(0.78)	(0.79)
$PI_{combined,\ Senate\ residual}$*Sell	-0.152***	-0.146***	-0.157***	-0.171**
	(-2.67)	(-2.74)	(-2.81)	(-2.46)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES

Table 8: Performance regressions for Democrat/Republican political indexes

This table presents the results from OLS regressions of insider trades' abnormal returns in different periods based on the political party in control of House/Senate. The dependent variable is calculated as the cumulated market-adjusted abnormal returns of a stock from the transaction day to day 30 after an insider trade and is expressed in percents. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. The Democrat (Republican) political indexes are calculated by multiplying each equation (1) to (4) with an indicator variable equal to one if the candidate is affiliated with the Democrat (Republican) and zero otherwise. The Democrat (Republican) residual political indexes are the residual from the regression of Democrat (Republican) political indexes on Senate (Republican) measure of the same indexes. Political indices are then standardized. The remaining variables are defined in Appendix A. Every specification includes all controls in Table 4. Month-year fixed effect is included when indicated. Standard errors are clustered at the firm level. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Panel A: Full sample (Observations = 815,920)				
	$PI^{candidates}$	$PI^{strength}$	PI^{power}	$PI^{related}$
	(1)	(2)	(3)	(4)
Panel A1: Democrat, Republican residual				
$PI_{firm,\ DEM}$ *Buy	0.076	0.076	0.055	0.030
	(1.29)	(1.77)	(0.72)	(0.40)
$PI_{firm,\ DEM}$ *Sell	-0.294***	-0.217***	-0.305***	-0.287***
	(-6.16)	(-5.25)	(-5.46)	(-5.53)
$PI_{firm,\ REP\ residual}$*Buy	0.102	0.080	0.141	0.141
	(1.09)	(0.92)	(1.43)	(1.45)
$PI_{firm,\ REP\ residual}$*Sell	-0.094**	-0.083**	-0.091**	-0.074**
	(-2.23)	(-2.25)	(-2.06)	(-1.96)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel A2: Republican, Democrat residual				
$PI_{firm,\ REP}$ *Buy	0.115	0.100*	0.116	0.095
	(1.47)	(1.73)	(1.33)	(1.18)
$PI_{firm,\ REP}$ *Sell	-0.285***	-0.227***	-0.305***	-0.283***
	(-5.99)	(-5.58)	(-5.91)	(-5.64)
$PI_{firm,\ DEM\ residual}$*Buy	0.057	0.042	0.103	0.125
	(0.72)	(0.54)	(1.13)	(1.24)
$PI_{firm,\ DEM\ residual}$*Sell	-0.088	-0.013	-0.059	-0.059
	(-1.19)	(-0.36)	(1.22)	(-1.28)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES

Table 8: Performance regressions for Democrat/Republican political indexes (continued)

Panel B: Republican controls both House and Senate (Observations = 461,668)				
	$PI^{candidates}$	$PI^{strength}$	PI^{power}	$PI^{related}$
	(1)	(2)	(3)	(4)
Panel B1: Democrat, Republican residual				
$PI_{firm,\ DEM}$ *Buy	0.038	0.023	0.045	0.048
	(0.56)	(0.57)	(0.48)	(0.59)
$PI_{firm,\ DEM}$ *Sell	-0.282***	-0.221***	-0.304***	-0.306***
	(-4.94)	(-4.41)	(-4.54)	(-5.05)
$PI_{firm,\ REP\ residual}$*Buy	0.107	0.041	0.112	0.140
	(0.98)	(0.39)	(1.00)	(1.17)
$PI_{firm,\ REP\ residual}$*Sell	-0.345***	-0.287**	-0.356***	-0.318**
	(-2.82)	(-2.36)	(-2.91)	(-2.29)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel B2: Republican, Democrat residual				
$PI_{firm,\ REP}$ *Buy	0.083	0.037	0.054	0.022
	(0.78)	(0.68)	(0.59)	(0.27)
$PI_{firm,\ REP}$ *Sell	-0.472***	-0.420***	-0.487***	-0.475***
	(-4.62)	(-4.66)	(-4.57)	(-4.85)
$PI_{firm,\ DEM\ residual}$*Buy	0.078	0.029	0.102	0.150
	(0.90)	(0.28)	(0.89)	(1.23)
$PI_{firm,\ DEM\ residual}$*Sell	-0.187	-0.140	-0.191	-0.218*
	(-1.05)	(-0.88)	(-1.39)	(-1.78)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES

Table 8: Performance regressions for Democrat/Republican political indexes (continued)

Panel C: Republican controls House, Democrat controls Senate (Observations = 214,994)				
	$PI^{candidates}$	$PI^{strength}$	PI^{power}	$PI^{related}$
	(1)	(2)	(3)	(4)
Panel C1: Democrat, Republican residual				
$PI_{firm,\ DEM}$ *Buy	0.036	0.037	0.033	0.066
	(0.27)	(0.33)	(0.23)	(0.50)
$PI_{firm,\ DEM}$ *Sell	-0.486***	-0.450***	-0.517***	-0.506***
	(-5.95)	(-4.54)	(-5.34)	(-5.75)
$PI_{firm,\ REP\ residual}$*Buy	0.032	0.119	0.021	0.113
	(0.21)	(0.91)	(0.13)	(0.67)
$PI_{firm,\ REP\ residual}$*Sell	-0.250	-0.208	-0.201	-0.293*
	(-1.40)	(-1.31)	(-1.38)	(-1.83)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel C2: Republican, Democrat residual				
$PI_{firm,\ REP}$ *Buy	0.047	0.081	0.128	0.109
	(0.35)	(0.74)	(0.81)	(0.73)
$PI_{firm,\ REP}$ *Sell	-0.444***	-0.345***	-0.490***	-0.454***
	(-5.35)	(-4.67)	(-5.46)	(-5.20)
$PI_{firm,\ DEM\ residual}$*Buy	0.012	0.095	0.017	0.074
	(0.08)	(0.71)	(0.15)	(0.48)
$PI_{firm,\ DEM\ residual}$*Sell	-0.196	-0.171	-0.150	-0.169
	(-1.27)	(-1.09)	(-0.87)	(-1.52)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES

Table 8: Performance regressions for Democrat/Republican political indexes (continued)

Panel D: Democrat controls both House and Senate (Observations = 139,258)				
	$PI^{candidates}$	$PI^{strength}$	PI^{power}	$PI^{related}$
	(1)	(2)	(3)	(4)
Panel D1: Democrat, Republican residual				
$PI_{firm,\ DEM}$ *Buy	0.018	0.027	0.011	0.034
	(0.15)	(0.26)	(0.09)	(0.26)
$PI_{firm,\ DEM}$ *Sell	-0.424***	-0.506***	-0.492***	-0.502***
	(-6.90)	(-6.59)	(-6.20)	(-6.33)
$PI_{firm,\ REP\ residual}$*Buy	0.014	0.019	0.012	0.014
	(0.46)	(1.25)	(0.80)	(0.42)
$PI_{firm,\ REP\ residual}$*Sell	-0.293	-0.286	-0.269	-0.232
	(-0.96)	(-0.80)	(-0.60)	(-1.02)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES
Panel D2: Republican, Democrat residual				
$PI_{firm,\ REP}$ *Buy	0.027	0.028	0.036	0.090
	(0.22)	(0.22)	(0.20)	(0.57)
$PI_{firm,\ REP}$ *Sell	-0.444**	-0.568**	-0.582***	-0.532***
	(-2.10)	(-2.32)	(-2.83)	(-3.11)
$PI_{firm,\ DEM\ residual}$*Buy	0.063	0.033	0.016	0.008
	(0.20)	(0.40)	(0.13)	(0.03)
$PI_{firm,\ DEM\ residual}$*Sell	-0.391***	-0.356**	-0.421***	-0.406**
	(-2.96)	(-2.32)	(-2.58)	(-2.12)
Controls	YES	YES	YES	YES
Month-year FE	YES	YES	YES	YES

Table 9: Robustness check for Performance regressions

This table presents the results from OLS regressions of insider trades' abnormal returns. The sample includes one observation per insider report. Insider trades are aggregated within each report. In Panel A, transaction date is the first trading date of each report. In Panel B, transaction date is the last trading date of each report. The dependent variable is calculated as the cumulated market-adjusted abnormal returns of a stock from the transaction day to day 30 after an insider trade and is expressed in percents. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. Political indices are then standardized. The remaining variables are defined in Appendix A. *Buy* is equal one if the insider buys the stock and zero otherwise. *Sell* is equal one is the insider sells the stock and zero otherwise. IMR_{firm} and $IMR_{insider}$ are the inverse Mills ratio calculated from Heckman's (1979) selection model. The results of the model's first stages are reported in Appendices C and D. Month-year fixed effect is included when indicated. Standard errors are clustered at the firm level. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Table 9: Robustness check for Performance regressions (continued)

	Panel A: First trade of each report				*Panel B: Last trade of each report*			
	$PI^{candidates}$	$PI^{strength}$	PI^{power}	$PI^{related}$	$PI^{candidates}$	$PI^{strength}$	PI^{power}	$PI^{related}$
$PI_{combined}$*Buy	0.159	0.128	0.167*	0.144*	0.154	0.132	0.161*	0.138
	(1.38)	(1.48)	(1.82)	(1.74)	(1.21)	(1.57)	(1.82)	(1.65)
$PI_{combined}$*Sell	-0.277***	-0.215***	-0.299***	-0.283***	-0.254***	-0.208***	-0.278***	-0.261***
	(-6.02)	(-5.14)	(-5.67)	(-5.45)	(-5.51)	(-4.86)	(-5.21)	(-5.00)
Buy	3.511***	3.519***	3.506***	3.509***	3.532***	3.540***	3.526***	3.530***
	(24.62)	(24.66)	(24.62)	(24.62)	(24.77)	(24.81)	(24.77)	(24.77)
IMR_{firm}	0.564***	0.564***	0.564***	0.564***	0.564***	0.563***	0.563***	0.564***
	(8.03)	(8.03)	(8.02)	(8.02)	(8.06)	(8.06)	(8.05)	(8.05)
$IMR_{insider}$	0.027	0.025	0.027	0.027	0.042	0.040	0.042	0.042
	(0.31)	(0.27)	(0.30)	(0.30)	(0.47)	(0.44)	(0.47)	(0.47)
Past month return	0.040	0.040	0.040	0.040	0.031	0.031	0.031	0.031
	(0.79)	(0.79)	(0.79)	(0.79)	(0.11)	(0.08)	(0.12)	(0.11)
Past year return	0.013***	0.013***	0.013***	0.013***	0.016***	0.016***	0.016***	0.016***
	(4.72)	(4.69)	(4.73)	(4.72)	(5.20)	(5.20)	(5.21)	(5.20)
Ln(Size)	-0.472***	-0.460***	-0.478***	-0.476***	-0.439***	-0.428***	-0.445***	-0.443***
	(-9.78)	(-9.92)	(-9.74)	(-9.76)	(-9.12)	(-9.24)	(-9.09)	(-9.11)
Ln(Book_market)	0.422***	0.430***	0.419***	0.418***	0.453***	0.460***	0.450***	0.450***
	(2.86)	(2.93)	(2.83)	(2.83)	(3.12)	(3.19)	(3.10)	(3.09)
Month-year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	576,954	576,954	576,954	576,954	576,954	576,954	576,954	576,954
Adjusted R2	0.043	0.043	0.043	0.043	0.042	0.042	0.042	0.042

Table 10: Effects of political connections on insider trading behavior: Days to the closest earnings announcement.

This table presents the results from OLS regressions of insider trading behavior. The dependent variable is the number of days to the closest earnings announcement from an insider trade. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. Political indices are then standardized. *Buy* is equal one if the insider buys the stock and zero otherwise. *Sell* is equal one is the insider sells the stock and zero otherwise. IMR_{firm} and $IMR_{insider}$ are the inverse Mills ratio calculated from Heckman's (1979) selection model. The results of the model's first stages are reported in Appendices C and D. The remaining variables are defined in Appendix A. Standard errors are clustered at the firm level. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Table 10: Effects of political connections on insider trading behavior: Days to the closest earnings announcement (continued)

	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PI_{firm}*Buy	-0.537***	-0.156***	-0.466***	-0.171***	-0.539***	-0.218***	-0.607***	-0.164***
	(-8.84)	(-4.08)	(-7.93)	(-4.51)	(-8.50)	(-5.77)	(-9.65)	(-4.35)
PI_{firm}*Sell	-0.753***	-0.603***	-0.736***	-0.638***	-0.770***	-0.784***	-0.774***	-0.650***
	(-20.59)	(-9.72)	(-19.92)	(-10.76)	(-21.32)	(-12.07)	(-21.40)	(-10.12)
Buy	60.621***	60.940***	60.622***	61.013***	60.620***	60.914***	60.620***	60.948***
	(580.55)	(432.57)	(580.82)	(437.47)	(580.13)	(429.97)	(580.31)	(431.41)
Sell	60.007***	60.262***	59.999***	60.343***	60.009***	60.235***	60.005***	60.272***
	(601.98)	(373.06)	(602.39)	(377.31)	(601.89)	(371.22)	(602.00)	(372.34)
IMR_{firm}	1.291***	0.721***	1.305***	0.722***	1.286***	0.721***	1.285***	0.722***
	(46.05)	(24.69)	(46.63)	(24.70)	(45.86)	(14.67)	(45.80)	(24.70)
$IMR_{insider}$	-3.202***	-2.529***	-3.202***	-2.544***	-3.189***	-2.525***	-3.191***	-2.531***
	(-55.97)	(-44.14)	(-55.96)	(-44.43)	(-55.74)	(-44.10)	(-55.77)	(-44.19)
Ln(Size)		1.083***		1.046***		1.104***		1.088***
		(45.88)		(44.76)		(46.52)		(45.96)
Institutional ownership		0.980***		0.982***		0.977***		0.980***
		(8.87)		(8.89)		(8.85)		(8.87)
Abs(Announcement return (1,5))		-0.177***		-0.177***		-0.177***		-0.177***
		(-38.48)		(-38.48)		(-38.48)		(-38.48)
CEO duality		1.333***		1.348***		1.331***		1.334***
		(13.83)		(13.98)		(13.80)		(13.84)
Board independence		1.749***		1.728***		1.758***		1.746***
		(12.31)		(12.18)		(12.36)		(12.28)
Observations	815,920	810,757	815,920	810,757	815,920	810,575	815,920	810,757
Adjusted R2	0.617	0.824	0.617	0.824	0.617	0.824	0.617	0.824

Table 11: Effects of political connections on insider trading behavior: Trading during common blackout periods.

This table presents the results from logit regressions of insider trading behavior. The dependent variable equals 1 if an insider trade happens in the windows of (t-10, t+3) around the day that an earnings announcement is released. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. *Buy* is equal one if the insider buys the stock and zero otherwise. *Sell* is equal one is the insider sells the stock and zero otherwise. IMR_{firm} and $IMR_{insider}$ are the inverse Mills ratio calculated from Heckman's (1979) selection model. The results of the model's first stages are reported in Appendices C and D. Political indices are then standardized. The remaining variables are defined in Appendix A. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Table 11: Effects of political connections on insider trading behavior: Trading during common blackout periods (continued)

Panel A: Coefficients

	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$PI_{combined}$*Buy	0.018***	0.013***	0.017**	0.008**	0.019***	0.011***	0.017***	0.010***
	(3.51)	(3.00)	(2.15)	(2.13)	(4.65)	(3.02)	(4.65)	(2.84)
$PI_{combined}$*Sell	0.020***	0.018***	0.018***	0.015***	0.027***	0.031***	0.027***	0.030***
	(4.89)	(3.60)	(3.27)	(2.81)	(5.27)	(5.05)	(4.75)	(5.16)
Buy	-1.676***	-1.770***	-1.675***	-1.772***	-1.676***	-1.768***	-1.676***	-1.769***
	(-275.22)	(-124.47)	(-275.33)	(-125.88)	(-275.07)	(-123.59)	(-275.13)	(-124.00)
Sell	-1.848***	-1.977***	-1.846***	-1.980***	-1.848***	-1.975***	-1.848***	-1.976***
	(-318.62)	(-120.60)	(-318.96)	(-121.97)	(-318.50)	(-119.86)	(-318.54)	(-120.22)
IMR_{firm}	0.000	0.013***	0.001	0.013***	0.000	0.013***	0.000	0.013***
	(0.16)	(4.22)	(0.50)	(4.20)	(0.03)	(4.21)	(0.09)	(4.21)
$IMR_{insider}$	0.035***	0.018***	0.035***	0.018***	0.034***	0.018***	0.034***	0.018***
	(6.06)	(3.12)	(6.05)	(3.08)	(6.00)	(3.14)	(6.01)	(3.13)
Ln(Size)		-0.017***		-0.018***		-0.017***		-0.017***
		(-7.28)		(-7.58)		(-7.11)		(-7.20)
Institutional ownership		-0.008		-0.008		-0.008		-0.008
		(-0.73)		(-0.72)		(-0.73)		(-0.73)
Abs(Announcement return (1,5))		0.003***		0.003***		0.003***		0.003***
		(7.07)		(7.10)		(7.07)		(7.08)
CEO duality		0.011		0.010		0.011		0.011
		(1.16)		(1.07)		(1.16)		(1.14)
Board independence		-0.086***		-0.088***		-0.086***		-0.086***
		(-6.05)		(-6.17)		(-6.02)		(-6.06)
Observations	815,920	810,757	815,920	810,757	815,920	810,757	815,920	810,757

Table 11: Effects of political connections on insider trading behavior: Trading during common blackout periods (continued)

Panel B: Marginal effects

	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$PI_{combined}$*Buy	0.002***	0.002***	0.001**	0.001**	0.002***	0.001***	0.002***	0.001***
	(3.21)	(3.00)	(2.15)	(2.13)	(4.65)	(3.02)	(4.65)	(2.84)
$PI_{combined}$*Sell	0.002***	0.002***	0.002***	0.002***	0.003***	0.004***	0.003***	0.004***
	(4.89)	(3.60)	(3.27)	(2.81)	(5.27)	(5.05)	(4.75)	(5.16)
Buy	-0.191***	-0.201***	-0.191***	-0.201***	-0.191***	-0.201***	-0.191***	-0.201***
	(-327.03)	(-134.62)	(-327.18)	(-136.32)	(-326.81)	(-133.67)	(-326.90)	(-134.12)
Sell	-0.265***	-0.287***	-0.265***	-0.288***	-0.265***	-0.287***	-0.265***	-0.287***
	(-341.84)	(-108.78)	(-342.36)	(-110.13)	(-341.66)	(-108.10)	(-341.71)	(-108.43)
IMR_{firm}	0.000	0.002***	0.000	0.002***	0.000	0.002***	0.000	0.002***
	(0.16)	(4.22)	(0.50)	(4.20)	(0.03)	(4.21)	(0.09)	(4.21)
$IMR_{insider}$	0.004***	0.002***	0.004***	0.002***	0.004***	0.002***	0.004***	0.002***
	(6.07)	(3.12)	(6.05)	(3.08)	(6.00)	(3.14)	(6.01)	(3.13)
Ln(Size)		-0.002***		-0.002***		-0.002***		-0.002***
		(-7.29)		(-7.58)		(-7.12)		(-7.20)
Institutional ownership		-0.001		-0.001		-0.001		-0.001
		(-0.73)		(0.72)		(-0.73)		(-0.73)
Abs(Announcement return (1,5))		0.000***		0.000***		0.000***		0.000***
		(7.07)		(7.10)		(7.08)		(7.08)
CEO duality		0.001		0.001		0.001		0.001
		(1.16)		(1.07)		(1.16)		(1.14)
Board independence		-0.011***		-0.011***		-0.011***		-0.011***
		(-6.06)		(-6.17)		(-6.02)		(-6.06)
Observations	815,920	810,757	815,920	810,757	815,920	810,757	815,920	810,757

Table 12: Effects of political connections on insider trading behavior: Missing reporting requirement.

This table presents the results from logit regressions of insider trading behavior. The dependent variable equals 1 if the a trade is reported after the 10th day of the next calendar before August 2002 or after 2 trading days after August 2002; and equals 0 otherwise. $PI_{combined}$ is the sum of political index for the insider and the firm. The index calculations are explained in Section 3.2. *Buy* is equal one if the insider buys the stock and zero otherwise. *Sell* is equal one is the insider sells the stock and zero otherwise. IMR_{firm} and $IMR_{insider}$ are the inverse Mills ratio calculated from Heckman's (1979) selection model. The results of the model's first stages are reported in Appendices C and D. Political indices are then standardized. The remaining variables are defined in Appendix A. t-statistics are in the brackets. ***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Table 12: Effects of political connections on insider trading behavior: Missing reporting requirement (continued)

Panel A: Coefficients

	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$PI_{combined}$*Buy	0.066***	0.013***	0.041***	0.015***	0.068***	0.015***	0.071***	0.016***
	(11.11)	(3.01)	(6.78)	(3.15)	(11.43)	(3.52)	(11.70)	(3.59)
$PI_{combined}$*Sell	0.116***	0.060***	0.130***	0.049***	0.123***	0.075***	0.126***	0.069***
	(25.42)	(10.75)	(22.99)	(9.82)	(27.93)	(12.76)	(27.57)	(11.71)
Buy	-0.982***	-0.242***	-0.981***	-0.253***	-0.982***	-0.235***	-0.982***	-0.240***
	(-189.56)	(-19.89)	(-189.66)	(-21.01)	(-189.48)	(-19.26)	(-189.46)	(-19.71)
Sell	-1.376***	-0.426***	-1.379***	-0.438***	-1.375***	-0.421***	-1.375***	-0.426***
	(-274.03)	(-30.34)	(-274.66)	(-31.46)	(-273.86)	(-29.86)	(-273.88)	(-30.28)
IMR_{firm}	0.040***	-0.028***	0.042***	-0.028***	0.039***	-0.028***	0.039***	-0.028***
	(6.58)	(-11.13)	(7.29)	(-11.12)	(6.27)	(-11.15)	(6.24)	(-11.13)
$IMR_{insider}$	-0.707***	-0.616***	-0.707***	-0.616***	-0.705***	-0.616***	-0.705***	-0.616***
	(-11.45)	(-19.69)	(-11.10)	(-19.70)	(-11.07)	(-19.69)	(-11.08)	(-19.69)
Ln(Size)		-0.125***		-0.123***		-0.126***		-0.125***
		(-8.39)		(-7.89)		(-8.51)		(-8.24)
Institutional ownership		-0.237***		-0.236***		-0.237***		-0.237***
		(-4.32)		(-4.26)		(-4.39)		(-4.39)
Abs(Announcement return (1,5))		0.005***		0.005***		0.005***		0.005***
		(12.71)		(12.66)		(12.67)		(12.68)
CEO duality		0.102***		0.103***		0.102***		0.103***
		(11.55)		(11.61)		(11.59)		(11.60)
Board independence		-0.176***		-0.171***		-0.177***		-0.175***
		(-12.73)		(-12.37)		(-12.82)		(-12.66)
Observations	815,920	810,757	815,920	810,757	815,920	810,757	815,920	810,757

Table 12: Effects of political connections on insider trading behavior: Missing reporting requirement (continued)

Panel B: Marginal effects

	$PI^{candidates}$		$PI^{strength}$		PI^{power}		PI^{relate}	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$PI_{combined}$*Buy	0.011***	0.002***	0.007***	0.002***	0.011***	0.002***	0.011***	0.003***
	(11.11)	(3.01)	(6.78)	(3.15)	(11.43)	(3.52)	(11.70)	(3.59)
$PI_{combined}$*Sell	0.019***	0.009***	0.021***	0.008***	0.020***	0.012***	0.020***	0.011***
	(25.47)	(10.75)	(23.04)	(9.82)	(28.00)	(12.76)	(27.64)	(11.71)
Buy	-0.151***	-0.038***	-0.150***	-0.039***	-0.150***	-0.037***	-0.150***	-0.037***
	(-219.24)	(-20.23)	(-219.31)	(-21.40)	(-219.11)	(-19.58)	(-219.09)	(-20.05)
Sell	-0.240***	-0.069***	-0.241***	-0.071***	-0.240***	-0.068***	-0.240***	-0.069***
	(-301.75)	(-29.67)	(-302.63)	(-30.76)	(-301.60)	(-29.20)	(-301.62)	(-29.62)
IMR_{firm}	0.006***	-0.004***	0.007***	-0.004***	0.006***	-0.004***	0.006***	-0.004***
	(6.58)	(-11.13)	(7.30)	(-11.12)	(6.27)	(-11.15)	(6.24)	(-11.13)
$IMR_{insider}$	-0.115***	-0.097***	-0.115***	-0.097***	-0.114***	-0.097***	-0.114***	-0.097***
	(-11.45)	(-19.92)	(-11.51)	(-19.94)	(-11.42)	(-19.92)	(-11.42)	(-19.93)
Ln(Size)		-0.020***		-0.019***		-0.020***		-0.020***
		(-8.57)		(-8.17)		(-8.69)		(-8.43)
Institutional ownership		-0.037***		-0.037***		-0.037***		-0.037***
		(-4.34)		(-4.28)		(-4.41)		(-4.41)
Abs(Announcement return (1,5))		0.001***		0.001***		0.001***		0.001***
		(12.71)		(12.66)		(12.68)		(12.68)
CEO duality		0.016***		0.016***		0.016***		0.016***
		(11.64)		(11.70)		(11.68)		(11.69)
Board independence		-0.028***		-0.027***		-0.028***		-0.028***
		(-12.73)		(-12.38)		(-12.83)		(-12.67)
Observations	815,920	810,757	815,920	810,757	815,920	810,757	815,920	810,757

Appendix A: History of limits on political contributions

This appendix provides a brief overview on changes on limits on political contributions over time. While the details on these limits are rather extensive, in this appendix, I focus on provisions related on individual and corporate contributions.

The Federal Election Campaign (FECA), passed by the Congress in 1971, was the first set of rules on public funding of federal elections. Besides setting disclosure requirements for all candidates and political parties, it establishes the strict limits on contributions made by individuals and specific interest groups to candidates, parties and political action committees (PACs). Corporations are prohibited from making direct contributions to federal candidates. However, they can sponsor a connected PAC and this PAC can give money to the candidate committees. According to this Act, for each two-year election cycle, each PAC can contribute up to $5,000 during a primary election and $5,000 during a general election to a candidate, which makes $10,000 per election cycle per candidate. Individuals are allowed to make up $1,000 per candidate in each election round, adding up to $2,000 per candidate per election cycle. FECA also put a limit of $25,000/year on the total amount of contributions that an individual can make. No limit was set on total amount of contributions made by a PAC. Individuals and PACs, however, can contribute unlimited amounts during elections in "soft money", which are contributions not associated with the candidate campaign, to political parties. "Soft money" can be used for party building or administrative expenses.

The Bipartisan Campaign Reform Act (BCRA) was passed in 2002 with significant changes in the campaign finance system in the US. Two major changes regarding contribution limits introduced the BRCA are the ban of all "soft money" contributions and the increases in limits for individual contributions to federal candidates. The details on changes on these limits are shown in the table below. There was no change on limits on contributions made by PACs.

In 2014, the Supreme Court removed the limit on total amount of political contributions made by individuals. Individuals now can give an unlimited amount in total candidates, PACs and political parties combined. Contribution limits for PACs remained unchanged.

Election	From individual donors		From PACs	
cycle	To candidate	Aggregate total	To candidate	Aggregate total
Up to 2002	$1,000/election	$25,000/year	$5,000/election	No limit
2004	$2,000/election	$37,500/cycle	$5,000/election	No limit
2006	$2,100/election	$40,000/cycle	$5,000/election	No limit
2008	$2,300/election	$42,700/cycle	$5,000/election	No limit
2010	$2,400/election	$45,600/cycle	$5,000/election	No limit
2012	$2,500/election	$46,200/cycle	$5,000/election	No limit
2014	$2,600/election	$46,800/cycle	$5,000/election	No limit
2016	$2,700/election	No limit	$5,000/election	No limit

Note: Primary and general elections count as separate elections.

Appendix B: Variable definitions

Variables	Definitions	Source
Panel A: Political connection indices		
$PI^{candidates}$	$$PI_{it}{}^{candidates} = \sum_{j=1}^{J} Candidate_{jt,t-3}$$ where $Candidate_{jt,t-3}$ is a binary variable, takes value 1 if firm (insider) i has made contributions to candidate j over the past 3 cycles and 0 otherwise. J is the number of candidates supported by firm (insider) i	FEC
$PI^{strength}$	$$PI_{it}{}^{strength} = \sum_{j=1}^{J} Candidate_{jt,t-3} \times I_{jt} \times Pct_{jt} \times Rellength_{jt}$$ where $Candidate_{jt,t-3}$ is a binary variable, takes value 1 if the firm (the insider) has made contributions to candidate j over the past 3 cycles and 0 otherwise, J is the number of candidates supported by firm (insider) i, I_{it} is an indicator variable equal to 1 if the candidate won the election cycle t and equal to 0 otherwise, Pct_{jt} is the percentage of votes received by candidate j in election cycle t, $Rellength_{jt}$ is the number of cycles that the firm (the insider) has been maintaining an uninterrupted relationship with candidate j until time t	FEC
PI^{power}	$$PI_{it}{}^{power} = \sum_{j=1}^{J} Candidate_{jt,t-3} \times I_{jt} \times Pct_{jt} \times \left[\sum_{m=1}^{M} \frac{Committee\ rank_{mt}}{Median\ committee\ rank_{mt}}\right]_j$$ where $Candidate_{jt,t-3}$ is a binary variable, takes a value of 1 if the firm (the insider) has made contributions to candidate *j* in each of the past 3 cycles and 0 otherwise, *J* is the number of candidates supported by firm (insider) *i*, I_{jt} is an indicator variable equal to 1 if the candidate *j* was in the office in the election cycle *t* and equal to 0 otherwise, Pct_{jt} is the percentage of votes received by candidate *j* in election cycle *t*, *Committee* $rank_{mt}$ is the reciprocal of candidate *j*'s rank on committee *m* (rank =1 for the most important member), and *Median*	FEC

	committee rank$_{mt}$ is the median rank of members on a given committee *m* of which candidate *j* is a member $$PI_{it}^{relate} = \sum_{j=1}^{J} Candidate_{jt,t-3} \times I_{jt} \times Related_{jt}$$	
PI^{relate}	where $Candidate_{jt,t-3}$ is a binary variable, takes a value of 1 if the firm (the insider) has made contributions to candidate *j* in each of the past 3 cycles and 0 otherwise, *J* is the number of candidates supported by firm (insider) *i*, I_{jt} is an indicator variable equal to 1 if the candidate *j* was in the office in the election cycle *t* and equal to 0 otherwise, and $Related_{jt}$ takes value 1 for politicians serving in the House or Senate Appropriations, Commerce, Finance and Banking Committees and 0 otherwise	FEC
Panel B: Control variables		
IMR_{firm}	The inverse Mills ratio from Heckman's (1979) selection model, estimated using the results from Probit model for firm's political involvement in Appendix C	
$IMR_{insider}$	The inverse Mills ratio from Heckman's (1979) selection model, estimated using the results from Probit model for insider's political involvement in Appendix D	
Ln(Size)	Natural logarithm of the market capitalization, using data on transaction date	CRSP
Ln(Book_market)	Natural logarithm of the ratio of book value of common equity to market capitalization, using data from the closest past quarterly earnings announcements. All negative book values are excluded	Compustat
Institutional ownership	The proportion of a firm's equity held by institutional investors, using data from the closest observed quarterly institutional holdings report. Values exceeding 100% are excluded.	Thomson Reuters
Past month return	Market-adjusted return of a stock over the period of one calendar month prior to a trade. This variable is expressed in percents.	CRSP
Past year return	Market-adjusted return of a stock over the period of one calendar year prior to a trade, excluding the prior month. This variable is expressed in percents.	CRSP

CEO duality	An indicator variable that takes value one for a firm-year in which the CEO also holds a director position, and takes value zero otherwise	Execucomp
Board independence	The proportion of the board of director that are independent directors for each firm-year	ISS
Abs(Announcement return (1,5))	Absolute value of market-adjusted return on a stock from trading day t+1 to trading day t+5 after the day the next earnings announcement is released. This variable is expressed in percents.	CRSP
Panel C: Trade characteristics		
Market-adjusted return (0,30)	The aggregated daily excess return for a stock from trading day t+0 to trading day t+30 after a transaction. The daily excess return is computed as the difference between the stock daily return and the daily CRSP value-weighted market index. This variable is expressed in percents.	CRSP
Size-adjusted return (0,30)	The aggregated daily excess return for a stock from trading day t+0 to trading day t+30 after a transaction. The daily excess return is computed as the difference between the stock daily return and the return on the portfolio of all stocks in the same size decile. The portfolios are constructed at the end of each June using NYSE breakpoints. This variable is expressed in percents.	CRSP, Kenneth French's website
DGTW return (0,30)	The aggregated daily excess return for a stock from trading day t+0 to trading day t+30 after a transaction. The daily excess return is computed as the difference between the stock daily return and the return on a portfolio with similar size, value and momentum characteristics, following Daniel, Grinblatt, Titman and Wermers (1997) with one change: book-to-market values are adjusted for industry average. The portfolios are constructed at the end of each June. This variable is expressed in percents.	CRSP
Days to earnings	Number of days from the trading day to the closest earnings announcement. Values exceeding 120 are excluded.	Thomson Reuters
Sensitive trading	An indicator variable that takes value one if a trade is executed in the t-10 to t+3 trading day window around an earnings announcement	Thomson Reuters

Late reporting	An indicator variable that takes value one if the inside reports a trade after the reporting deadline, and takes value zero otherwise. Before August 2002, the deadline is before the 10th day of the next calendar month. After August 2002, deadline is within 2 trading days from the transaction day	Thomson Reuters
Panel D: Determinants of firms' political involvement		
Ln(Sales)	Natural logarithm of sales	Compustat
Ln(Employees)	Natural logarithm of the number of employees	Compustat
Business segments	Number of firm's business segments	Compustat Segment
Geographic segments	Number of firm's geographic segments	Compustat Segment
Leverage	The sum of long-term debt and debt in current liability, scaled by total assets	Compustat
Cash flows	(Operating income before depreciation – interest expenses – taxes – preferred dividends – common dividends)/total assets	Compustat
Market share	The firm's sales over total sales of the industry	Compustat
Herfindahl index	$HHI = \sum_{i=1}^{N} s_i^2$ where s_i is the market share of firm i in the industry and N is the number of firms in the industry	Compustat
Regulation	An indicator variable that takes value one if a firm's one-digit SIC code is 6 or its two-digit SIC code is 49, and zero otherwise	Compustat
Government purchases	Percent of total industry customers that are federal or state governments	US Economic Census
Political active firms	Number of firms in a firm's industry that are making political contributions in the same cycle	FEC
Percent unionized	The percent of industry employees belonging to labor unions	Hirsch and MacPherson (2003)

Panel E: Determinants of insiders' political involvement		
Age	Current year – Year of birth	BoardEx
Years in role	Number of years that an insider has been in the position	BoardEx
Ln(Network size)	Number of overlaps through employment, other activities and educaton	BoardEx
Director	An indicator variable that takes value one if the insider is a director and zero otherwise	BoardEx
Male	An indicator variable that takes value one if the insider is a male and zero otherwise	BoardEx
American	An indicator variable that takes value one if the insider is an American and zero otherwise	BoardEx
Boards	Total number of boards for firms (private and public) that an insider has served on	BoardEx
Current boards	Total number of boards for firms (private and public) that an insider is serving on	BoardEx
No. of directors	Number of directors at the firm where an insider is serving	BoardEx
Ln(Compensation)	Natural logarithm of an insider's salary plus bonuses	BoardEx
Politically active insiders	Number of insiders in an insider's firm that are making political contributions in the same cycle	FEC

Appendix C: Determinants of firms' political involvement

This table presents the coefficients of the first-stage probit model, which is used to calculate the inverse Mills ratio for the firms. The model is estimated for all firms on merged Compustat/CRSP database with non-missing values for the independent variables for each election cycle from 1980 to 2016. The dependent variable is an indicator equal to one if the firm makes at least one donation to any political candidate in that cycle and zero otherwise. Industries are defined using Fama-French 48 industry definitions. All independent variables are defined in Appendix B.

First stage Probit model	
Intercept	-4.0392***
	(-26.31)
Ln(Size)	0.1140***
	(14.72)
Ln(Sales)	0.1318***
	(10.98)
Ln(Employees)	0.1347***
	(13.97)
Business segments	0.0343***
	(7.31)
Geographic segments	-0.1095***
	(-4.11)
Book-to-market	-0.0127
	(-1.30)
Leverage	0.1153***
	(3.44)
Cash flow	-0.4106***
	(-7.02)
Market share	0.4834
	(1.17)
(Market share)^2	0.6910
	(0.95)
Herfindahl index	0.3225**
	(2.05)
Regulation indicator	0.1225***
	(4.26)
Government purchases	0.8183***
	(2.73)
Politically active firms	0.0048***
	(5.17)
Percent unionized	0.8597***
	(13.91)
N	50,973

Appendix D: Determinants of insiders' political involvement

This table presents the coefficients of the first-stage probit model, which is used to calculate the inverse Mills ratio for the insiders. The model is estimated for all insiders on Form 4 Thomson Reuter database with non-missing values for the independent variables for each election cycle from 1996 to 2016. The dependent variable is an indicator equal to one if the insider makes at least one donation to any political candidate in that cycle and zero otherwise. Industries are defined using Fama-French 48 industry definitions. All independent variables are defined in Appendix B. If the insiders hold positions in more than one firm in that cycle, the average value for Years to retirement, Years in role, and No. of politically active insiders and the total value of Compensation are calculated.

First stage Probit model	
Intercept	5.4079***
	(22.06)
Age	-0.1068***
	(-30.84)
Years to retirement	0.1087***
	(31.14)
Ln(Network size)	0.0827***
	(30.58)
Director	-0.3224***
	(-18.64)
Male	0.2325***
	(21.10)
American	0.0725***
	(10.76)
Boards	0.0116***
	(18.18)
Current boards	0.0034***
	(2.83)
No. of directors	0.0124***
	(9.97)
Ln(Compensation)	0.0013***
	(3.43)
Politically active insiders	0.0744***
	(64.65)
N	201,240

Appendix E: Relationship list

This table presents the list of the insider's roles or positions within the company, as reported on the filing. The positions are grouped into three different categories: Directors, Officers and Other.

	Positions
Directors	Chairman of the Board, Director, Director and Beneficial Owner of more than 10% of a Class of security, Vice Chairman
Officers	Assistant Vice President, Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Operating Officer, Chief Technology Officer, Executive Vice President, Officer, Officer and Beneficial Owner of more than 10% of a Class of security, Officer or Parent Company, Officer and Treasurer, Divisional Officer, President, Senior Vice President, Vice President, Secretary
Other	Affiliated Person, Affiliate of Investment Advisor, General Counsel, Investment Advisor, Controller, Controlling Person, Indirect Shareholder, Former, General Manager, General Partner, Managing Director, Other Executive, Retired, Shareholder, Trustee, Treasurer, Unknown, Voting Trustee, Deceased