

TRADING BEHAVIOR OF INSTITUTIONAL INVESTORS AND LAYOFFS

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ABSTRACT

We examine institutional investors' trading behavior around layoff announcements of their investing firms. Specifically, we investigate how the number of institutional investors and their shareholdings in layoff firms change around the layoff announcements. We find that the number of institutional investors has increased significantly around the layoff announcements. However, the institutional shareholdings experience no significant change. Further, we provide some evidence that layoff characteristics are associated with the changes in the number of institutional investors around layoff announcements. We document a negative relation between layoff size and the changes in the number of institutional investors. The likelihood of the increase of the number of institutional investors in a layoff firm decreases as layoff size increases. We find no evidence that layoff characteristics significantly affect the aggregate equity holdings of institutional investors in layoff firms. The results show that individual institutional investors do adjust their portfolios responding to layoff announcements. The insignificant change in aggregate institutional shareholdings may indicate that immediate mass purchasing and/or selling following a layoff may make institutional investors incur huge losses, implying both new and existing institutional investors of layoff firms trade more conservatively and cautiously.

Keywords: *Layoffs; The number of institutional investors; Institutional shareholdings*