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## Do Financial Analysts Restrain Insiders' Informational Advantage?

[Andrew Ellul](#) and [Marios Panayides](#)DOI: <https://doi.org/10.1017/S0022109017000990>

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### Abstract

By collecting and disseminating price-sensitive information, financial analysts should reduce firm insiders' informational advantage with a consequent impact on trading dynamics and market quality. We empirically examine the impact of complete analysts' coverage termination on stocks' liquidity, price discovery, and insider trading profitability. Termination leads to deteriorating liquidity and price efficiency, more informed trading, and higher profitability of insider trades. The magnitude of these effects depends on the strength of insiders' ownership and on management's decision whether to improve the firm's information environment after coverage termination. Institutional investors alleviate, but do not eliminate, the negative effects of termination.

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### Corresponding author

\*Ellul (corresponding author), anellul@indiana.edu (mailto:anellul@indiana.edu), Indiana University Kelley School of Business, University of Naples Federico II Center for Studies in Economics and Finance (CSEF), and European Corporate Governance Institute (ECGI); Panayides, mpanayides@katz.pitt.edu (mailto:mpanayides@katz.pitt.edu), University of Pittsburgh Katz Graduate School of Business.

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## Footnotes

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