A legal loophole "8-K trading gap" lets executives trade on insider information, and it seems to be rampant

* [Lucinda Shen](http://www.businessinsider.com/author/lucinda-shen) and [Matt Turner](http://www.businessinsider.com/author/matt-turner) of Business Insider
* *flickr/75144752@N00*

Behavior that looks a lot like insider trading among corporate executives and board members seems to be pretty common, according to a paper by [researchers at Harvard and Columbia](http://www.businessinsider.com/academic%20paper%20by%20researchers%20at%20Harvard%20and%20Columbia).

The academics studied buying and selling of company stock by executives in periods it called the "8-K trading gap." Liz Hoffman at The Wall Street Journal covered the same research [here.](http://www.wsj.com/articles/insiders-beat-market-before-event-disclosure-study-1442280193)

When an event occurs at a public company, companies are required to disclose the information through a Form 8-K filing with the Securities and Exchange Commission within four days of the event.

The study said: "These rules thus create a period during which market-moving information is known by those inside the firm but not most public-company investors — a period we call the '8-K trading gap.'"

The study examined more than 15,000 instances where insiders traded within the 8-K trading gap. It turns out that these trades were consistently profitable, that the executives typically buy ahead of the stock price rising as a result of the 8-K, and that the little likelihood of this being a product of random chance is minimal.

Here is the critical passage from the research summary:

"We identify systematic abnormal returns of 42 basis points on average, per trade, from trades by insiders during the 8-K gap. When insiders engage in an unusual transaction during the gap — open-market purchases of their own company’s stock — they earn even larger abnormal returns of 163 basis points. **We also show that, when they engage in such purchases, insiders are correct about the directional impact of the 8-K filing more often than not — and that the probability that this finding is the product of random chance is virtually zero.**