ABSTRACT

Insider trading is the activity of corporate insiders who buy or sell shares of their own company. From the regulation of Securities and Exchange Commission (SEC), this activity can be considered as illegal if they make trading based on company's information that has not been published, but in other side it is considered as legal if they make trading using company's information that has been published. After they conduct insider trading activity, either buying or selling, they must report it to SEC that will analyze this transaction whether it is legal or not. This research will only analyze for the legal insider trading with the data from SEC publication report.

Insider trading related with Efficient Market Hypothesis and asymmetric information between corporate insider and investor from outside of the company. Research by Myers and Majluf (1984) states that more efficient the price of stocks in capital market will reduce the information asymmetry between companies and potential investors. And research by Kyle (1985) explains that corporate insiders will trade more aggressively when there is greater asymmetric information.

The objectives of this research are to examine the difference of abnormal return between: 1) before and after insider trading conducted; 2) short term and long term period after insider trading conducted; 3) insider trading with low and high trade volume. This research using the sample from companies listed on the Index S&P 100 from year 2003 to 2007, and these samples will be divided into two categories where there are 14 companies that conducted *insider trading buying* and 20 companies conducted *insider trading selling*.

The results from this research indicate that: 1) Corporate insider earned positive abnormal return in the short term after *insider trading buying* conducted and negative abnormal return after *insider trading selling* conducted; 2) Corporate insider earned positive abnormal return in the long term period after *insider trading buying*, but but they did not earned negative abnormal return in the long term period after *insider trading selling*; 3) The ammount of trade volume shows no significant difference of abnormal return from *insider trading buying*, but on *insider trading selling* it proved that if the trade volume higher then the abnormal return generated will be lower.

Keywords: Insider Trading, Abnormal Return, Efficient Market Hypothesis, Asymmetric Information, Trade Volume.