

## **An Examination of Large Sell Orders in Cold IPO Aftermarkets.**

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*ABSTRACT:* It is well-known that investment bankers routinely take large naked short positions in low demand or cold IPOs, and that, in such IPOs, flipping accounts for a relatively large proportion of trading volume in the stabilization period. We find that a large proportion of institutional sells take place at the offer price, while a large proportion of retail sells take place below the offer price in a cold IPO stabilization period. We hypothesize that lead underwriters cover their short positions through selective buy back of shares from institutional investors at the offer price during the stabilization period. Because these bulk flips are expected, we find that the information content of large (institutional) sells during the cold IPO stabilization period is lower than the information content of small (retail) trades, and is the lowest compared to that of large sells of hot IPOs, medium demand IPOs, and several control samples. Selective buy-back of shares from institutions also implies that the immediate post-stabilization period holdings of institutions would be lower for cold IPOs relative to hot IPOs. We find that the mean and median institutional holdings of IPO stocks as at the end of the first calendar quarter immediately following an IPO are lower for cold IPOs relative to hot IPOs. Lead underwriters allow select institutions to sell back cold IPO allocations at the offer price because they are valuable buy-side clients involved in a repeated game. The idea that lead underwriters provide selective price support to institutions in the stabilization period is consistent with popular press accounts which indicate that restrictions on flipping are not uniformly applied and that retail clients are specifically under duress not to flip their allocations.