The Effect of Efficient Use of Information on Investors' Return on Securities Issued to the Public for the First Time

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Abstract

In this work we study investors' returns based on the information available to them on the issuing firms. This work examines, among other things, returns to investors on securities issued to the public for the first time and the distribution of the allocations of these securities to investors whose offers were accepted. We find that while the return on securities in the early days after the IPO is 12% on average, the return to investors who fail to make efficient use of information is zero or negative, on average. Empirical findings indicate that allocation rates to investors are extreme – either very high or very low – and they stem from large surplus demand or lack of demand, respectively. These findings are in line with the argument that despite the relatively high returns on securities in the early days of trading, investors who do not make efficient use of information suffer from "winners' curse," which prevents them from benefiting from the high returns. Furthermore, we find support for the argument that determining a relatively low price in an IPO is one of the means that a firm can use to diversify its securities among investors.

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