Congressional Insider Trading: Returns of US Representatives During the Covid-19 Pandemic

By

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Abstract

Abnormal returns from insider trading among members of Congress disappeared in 2012 with the passage of the STOCK Act. Prior to these regulations, existing literature showed that members of Congress earned significant abnormal returns. However, there have recently been concerns that certain members of Congress exploited their information advantages related to the Covid-19 pandemic and partook in insider trading. Given this development, it is important to reassess if insider trading occurs in congress. This thesis finds little evidence of widespread insider trading in the US House of Representatives during the Covid-19 pandemic.

Key words: insider trading, congress, House of Representatives, politics

1. Introduction

Insider trading has long been an interest in those regulating and studying financial markets. Insider trading occurs when an individual seeks to earn abnormal returns through trading a financial asset based on material nonpublic information they hold from their position in a firm, regulatory board, or government. There have been many studies identifying the profitability and effects of insider trading (Cheng and Lo, 2006, Gebka, et al., 2017, and Jeng, et al., 2003), as well as how governance structures affect the likelihood of insider trading (Dai, et al., 2016 and Lee, et al., 2011). However, one form of insider trading that has received less attention are trades made by politicians. For many years, the trades made by elected officials were left unregulated. Recently, there has been more scrutiny over the issue, but it still remains unclear if the current regulation covering insider trading from elected officials in the United State government is effective.

Despite the lack of regulatory and academic attention that has been devoted to this topic, the implications of insider trading from members of Congress are important to study. Ensuring that congressional officials are acting ethically is important because past research has shown that unethical behavior in government can produce a variety of negative effects, such as high employee absenteeism, resulting in wasted governmental resources, and a decrease in willingness of government employees to report unethical behavior (Hassan, et al., 2014). Additionally, members of Congress are trusted role models with high levels of publicity. People look to the leaders of the country for guidance on how they should behave. Unethical actions at the congressional level could lead to similar actions in lower levels of government and in everyday life.

On the regulatory side, given the incredible power held by members of Congress over the lives and livelihoods of the American people, it is important to ensure the actions of politicians are aligned with the best interests of their constituents. One potential example of misaligned incentives causing

issues for the American people would be if members of Congress favored companies in which they had a financial stake when awarding government contracts. This could lead to higher costs and the wasting of taxpayer money. This could also lead to lower quality work and less effective government services. If elected officials are abusing their insider knowledge from their position in the government for personal financial gain, this would indicate a poor alignment of incentives and necessitate regulatory change.

On the investment side, investors may be interested in mimicking the trades of members of Congress. If representatives are participating in insider trading, and the disclosure date of the trades are made close enough to the transaction date, investors could use the trades made by elected officials as buy or sell signals. If incorporated into investors' market predictions, congressional trades could serve as an indicator for future regulatory action which could lead to increased market efficiency and price discovery.

The Covid-19 pandemic was an exogenous shock and thus provides an opportunity to study if insider trading occurs in Congress. This study seeks to add to previous literature on the subject of insider trading among elected officials in the United States federal government by examining the profitability of trades made by members of the US House of Representatives during the Covid-19 pandemic. This study will examine the abnormal returns earned by common stock purchases and sales made by US representatives from January 24th, 2020, to October 5th, 2021. This study will also examine if the amount of nonpublic information held by an elected official, proxied by the committees on which each representative has a seat, impacts the abnormal returns generated by their trades.

The remainder of this thesis is organized as follows: Section 2 is a review of past literature pertaining to financial corruption among government officials and the effects of government reactions to the Covid-19 pandemic on the stock market. Section 3 contains the hypothesis development of this study and Section 4 will cover the data gathering and methodology techniques utilized to test these hypotheses. Section 5 will cover the results of this study and section 6 will focus on the implications and

limitations of these results and future research on this topic that should be conducted. Finally, section 7 will contain a conclusion of the study.

2. Literature Review

The following section will first review literature pertaining to finance related corruption by elected officials, followed by research of insider trading among members of the United States federal government. This will be followed by a review of the current literature pertaining to the effects of Covid-19 and government reactions to the pandemic on the stock market.

2.1 Elected Officials and Financial Markets

Finance related corruption from elected officials presents an issue to modern societies, as agency issues and misaligned incentives can cause those in governments to abuse their position to benefit themselves and their associates. One study performed by Bourveau et al. (2016) compared the trading patterns of known associates of the French president elected in 2007 before and after his election to other insiders who had similar standings in the same companies. They found that after the president took office, those who were connected to him traded significantly closer to their company's announcement dates and were less likely to disclose their trades on time. Bourveau concluded that this is most likely due to the immense power held by the French president in regard to overseeing the department responsible for prosecuting insider trading cases. This study demonstrates that it is likely that there is an unspoken agreement between influential elected officials and their close associates that ensures immunity to prosecution for insider trading.

Another form of financial political corruption is politicians trading regulatory favors for information with stock brokerage firms. This was studied by Stephan, et al. (2021), who looked at the effect of connections between brokerage firms and members of Congress. They found that politicians who had connections through campaign contributions from brokerage firms earned significantly higher returns than their less connected counterparts. This effect was even stronger for members who had

more regulatory power in the financial sector. These results indicate that brokerage firms may be trading stock tips to politicians in exchange for information on upcoming legislation or to influence regulation of the financial sector. These forms of corruption present a problem to societies as they benefit the political elite at the expense of their constituents, indicating a serious agency issue within modern governments.

2.2 Insider Trading in Congress

Public attention was first directed towards insider trading by elected officials in 2010, when the *Wall Street Journal* reported that several members of Congress may had engaged in insider trading. This story brought the issue into the public eye and inspired many other news organizations to perform their own investigations on insider trading among politicians. In 2012, Congress finally took action and passed the Stop Trading on Congressional Knowledge Act (STOCK Act) (Seaquest et al., 2013). This act was passed to reduce the number of insider trades made by elected officials, like US representatives and US senators, by mandating stricter disclosure rules and setting up legal paths for the SEC to prosecute members of Congress that violate the law. The STOCK Act made it illegal for these elected officials to trade on material nonpublic information that they possessed due to their position in the government. The STOCK Act closely resembles some of the laws that were previously written to prevent insider trading for corporate insider such as executives and members of boards of directors.

For the purposes of this section, previous literature will be divided into two time periods: prior to the passage of the STOCK Act and after the passage of the STOCK Act. Prior to the passage of the STOCK Act, two studies by Ziobrowski, et al. (2004) and Ziobrowski, et al. (2011) demonstrated that both senators and representatives earned statistically significant abnormal returns in excess of the overall market. The researchers in both studies created portfolios based on trades disclosed by elected officials on the SEC's website and computed the monthly and annual returns of these portfolios. They found that the monthly returns of portfolios created to mimic the share purchases made by US senators and US

representatives outperformed the overall market by 85 basis points and 55 basis points respectively. These studies demonstrated a high likelihood that elected officials were using their material nonpublic information to earn abnormal stock returns for personal financial benefit.

A stark difference in the returns experienced by elected officials occurred in 2012. Based on a study by Huang and Xuan (2017), the passage of the STOCK Act seemed to eliminate these abnormal returns. In their study, they compared the returns of a portfolio that mimics the trades made by politicians before the STOCK Act was passed to after it was passed. They found that there were significant abnormal returns in the portfolio prior to 2012, but those abnormal returns disappeared after the STOCK Act went into effect. They also analyzed the number of government contracts that were awarded to companies that politicians owned shares in before and after the STOCK Act and found a significant decrease in the likelihood of these firm being awarded a government contract after the passage of the STOCK Act. This indicates that part of the abnormal returns earned by politicians before 2012 may have been due to the politicians awarding government contracts to companies in which they had a financial interest. Another study confirmed these results by analyzing the returns of elected officials from 2012 to 2020 and found that members of the US Congress did slightly worse than the overall market (Belmont, Sacerdote, et al., 2020). These studies show that if there were abnormal returns earned by members of Congress, the profitability has since been removed and this is most likely due to the passage of the STOCK Act.

A follow-up study looked at the trades of senators during the first few months of 2020. They found no conclusive evidence that senators earned abnormal returns during the beginning of the Covid-19 pandemic (Belmont, Grozovsky, et al., 2020). This study indicates that there was no profitable insider trading done by members of the US Senate in relation to the development of the Covid-19 pandemic. One limitation of this study is it did not incorporate the entirety of the Covid-19 pandemic. The data used in this study ended in March of 2020, only a few months into the pandemic. Another major

limitation of that study was it did not include members of the House of Representatives. There are many reasons that could explain why the amount or profitability of insider trading would differ between the Senate and the House of Representatives. These include things like norms, culture, rules set by the ethics committees, and access to material nonpublic information related to the federal government's future actions. Because of this, it is important to study both the Senate and the House of Representatives and not draw conclusions about insider trading in Congress from only one of the legislative bodies. This study hopes to fill that gap by looking at insider trading in the House of Representatives during the Covid-19 pandemic.

2.3 Stock Market Reaction to the Covid-19 Pandemic

The Covid-19 pandemic has had an unprecedented effect on stock markets around the globe. One recent study on the effects of the Covid-19 pandemic on the stock market looked at previous pandemics that the United States has experience and analyzed the impact each pandemic had on stock returns (Baker, et al., 2020). They found that the Covid-19 pandemic has had a far more drastic effect on the stock market than any other disease. They noted that, despite the fact that the Spanish flu had a higher mortality rate, it had seemingly no effect on the stock market. They also looked at possible causes for the unprecedented stock market reaction to the Covid-19 pandemic and found that the most likely causes were voluntary social distancing and government mandates that adversely affected service industries, which make up a far greater portion of the US economy now than during previous pandemics.

Another study by Narayan, et al. (2021) looked at the effect that various government reactions to the Covid-19 pandemic had on the stock markets in G7 countries. The researchers looked at the announcement date of the government action and the three day return of the overall stock market in that government's country. They found that lockdowns, stimulus packages, and travel bans all had a significant positive effect on the stock market. This conclusion is consistent with previous studies that

have shown that legislation has a large effect on share prices (Cohen, et al., 2013, Copper, et al., 2010). These studies are relevant to this paper because it is likely that many representatives had knowledge of the government's mandates prior to their public announcement. Armed with this information, representatives could have traded ahead of the market by purchasing stocks that benefited from stay-at-home orders and selling stocks that would have been most affected by lockdowns and social distancing.

This concern is consistent with what was actually seen in January 2020. There was public scrutiny of several politicians who may have traded ahead of the market to avoid losses during the Covid-19 pandemic. These politicians sold several millions of dollars of stock shortly after the first Covid-19 briefing. One study analyzed the trades made by several key members of Congress shortly after a briefing on January 24th, 2020 regarding the development of Covid-19 outbreaks (Goodell & Huynh, 2020). They found that the trades made by many of these officials are consistent with an insider trading ahead of the market on material nonpublic information. One limitation of that study that this paper is seeking to fill is to calculate if these trades actually earned abnormal profits.

Additionally, a recent investigation by Business Insider identified 49 members of Congress that have ignored the STOCK Acts disclosure rules by illegally delaying the disclosure of their trades (Levinthal, 2021). They also found that the consequences for a violation of these rules was extremely small, usually a fine around $200, and was not applied evenly to all representative who violated the law (i.e. some members receive no punishment for their actions). This raised concerns that representatives may be willing to continue breaking the rules set in place by the STOCK Act because the ethics committees in the House and Senate have made the punishment for getting caught low. If representatives feel that they can get away with breaking some of the smaller rules in the STOCK Act, they may be willing to commit more blatant violations, such as insider trading. This brings into question whether or not the STOCK Act is still adequate at preventing insider trading among members of

Congress. Further research is necessary to identify evidence of unethical behavior in Congress. This paper serves to bridge that gap in research by assessing whether members of the US House of Representatives used this material nonpublic information for personal financial gain.

3. Hypothesis Development

Past literature has shown that after the passage of the STOCK Act in 2012, abnormal returns from elected officials seemed to disappear. However, given the recent press coverage of trades made by congressional members shortly after a briefing related to developments of the Covid-19 pandemic on January 24th, 2020, it is important to determine if congressional trading has changed in response to the increased government involvement during the Covid-19 pandemic. If there is insider trading occurring by members of the US House of Representatives based on material nonpublic information they have from their duties in the government, then they are likely to purchase shares of companies they know will benefit from the government's reaction to the pandemic. The returns of these stocks purchased by representatives are expected to demonstrate abnormal returns in excess of the overall market. Conversely, if members of the US House of Representatives have material nonpublic knowledge of government action that will likely negatively affect certain companies, they are likely to sell these shares. The returns of these stocks following the sales are expected to be below the overall market. This leads me to my first and second hypotheses:

Hypothesis 1: *A portfolio that mimics the common stock purchases of members of the US House of Representatives during the Covid-19 pandemic will earn positive abnormal returns.*

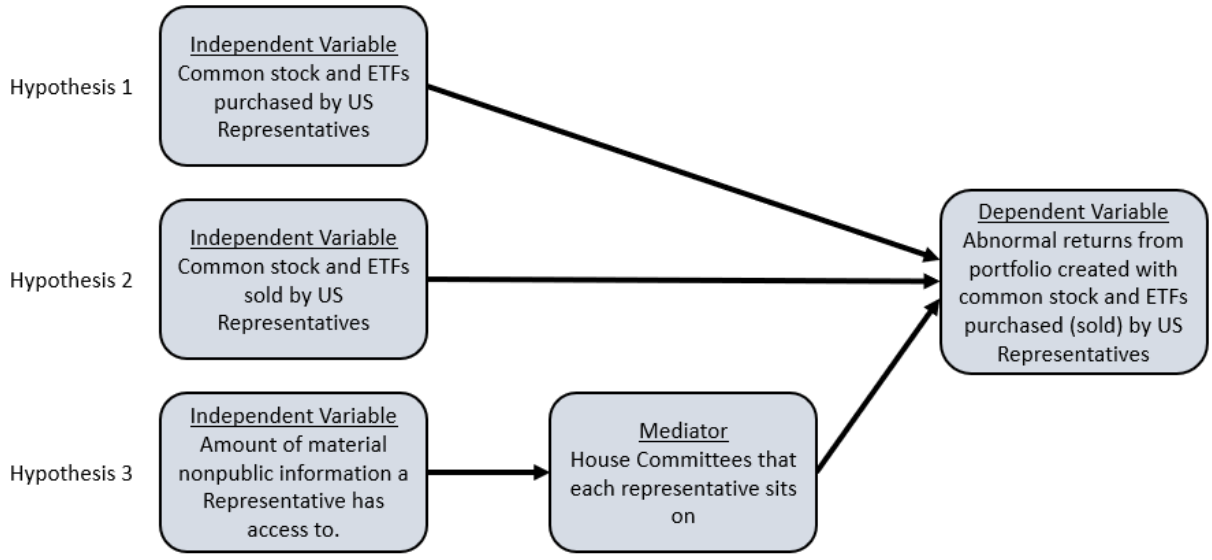
Hypothesis 2: *A portfolio that mimics the common stock sales of members of the US House of Representatives during the Covid-19 pandemic will earn negative abnormal returns.*

It is likely that if there are abnormal returns earned by US representatives, that these abnormal returns would be generated by the material nonpublic information that the members obtain through their role in legislation. Given the importance of committees in drafting and reviewing upcoming

legislation, there may be a correlation between the committees that representatives are on and their returns. Particularly, committees that had more access to sensitive information related to the development and implementation of the Federal Government's response to the Covid-19 pandemic would have given members more access to material nonpublic information. Past research has shown that many of the driving factors behind the high volatility during the Covid-19 pandemic came from government mandates. These certain committees may have had access to more information relevant to the Covid-19 pandemic, which would have given information advantages to these individuals. If members of Congress are participating in insider trading, it is likely that the representatives with the highest returns would be those with access to the most information. Therefore, it is important to test the returns of members of each committee. This leads me to my third hypothesis:

Hypothesis 3: *Members of the US House of Representative who sit on committees that have access to important information in the government's response to the Covid-19 pandemic will earn higher abnormal common stock returns than the representatives who do not sit on these committees.*

Figure 4.1



The research plan laying out the variables and interactions is located above in *Figure 4.1*. These variables and the methods used to analyze these hypotheses will be described in the following section.

4. Methodology

The following section will cover the variables and data used in this study, as well as the methodology used for analyzing the data.

4.1 Data and Variables

To test these hypotheses, data was gathered on trades made by members of the US House of Representatives, stock prices of common stock assets, and list of house committees and the members who sit on the committees. Only transactions made by US representatives that involved publicly traded equities were used, as nonpublic companies and debt markets are often less liquid and thus calculating returns would be less accurate. This study will use trades from between January 24th, 2020 and November 30th, 2021. January 24th, 2020 was chosen as the start date for gathering data on congressional trades because the first briefing relating to the development of the Covid-19 pandemic for congressional members was held on that date.

Share trades made by US representatives are required under the STOCK Act to be disclosed electronically on the Office of the Clerk, House of Representative website. Data on trades made by representatives, the date of the trade, and the trade amount was retrieved from a stock market watch group known as Stock Watchers, which monitor stock exchanges for illegal activity. This group posts a data file summarizing the transactions reported by US representatives and senators.

Based on the data retrieved from the Stock Watchers, between January 24th, 2020 and November 30th, 2021, members of the US House of Representatives reported 11,365 transactions. Out of these 11,365 transactions, 1927 transactions were eliminated: 104 transactions were exchanges and 1823 transactions were of a private company or bond. After eliminating these trades, there were 9438 transactions left containing 5028 purchases and 4410 sales.

The data on stock prices and returns from January 24th, 2020 to December 31st, 2021 were gathered from the Center for Research in Security Prices (CRSP). This data was gathered monthly. Stock price data was gathered for 1399 companies.

The two congresses that were in office from January 24, 2020 to November 30th, 2021 were the 116th Congress and 117th Congress. There were 448 and 446 individuals in the 116th and 117th Congresses respectively. There were 379 individuals who were in both the 117th and the 116th, leaving a total of 515 unique individuals during the time period of this study. Out of these 515 individuals, only 136 individuals reported transactions within the time period of this study. The party composition of these individuals was 63 Democrats, 72 Republicans, 1 Libertarian, and 0 Independents.

Additionally, the Clerk's website also posts information related to the party, state, and district of each representative. This data was gathered from this site. For information related to committees, the committee assignments from the 116th and the 117th Congresses were used. For transaction before January 3rd, 2021, committee assignments from the 116th Congress was used and for transaction after January 3rd, 2021, committee assignments from the 117th Congress was used because January 3rd was the day the new congress was sworn in. This information is also posted on the Office of the Clerk, House of Representatives website. The list of committees that were active in the 116th and 117th Congresses are listed in *Figure 4.2*, shown below (ethics committee was omitted due to lack of data). The committees are divided based on whether or not they are expected to provide material nonpublic information to the members on the committee.

Figure 4.2

Committees who are expected to experience abnormal returns	Committees who are not expected to experience abnormal returns
Appropriations	Agriculture
Energy and Commerce	Armed Forces
Financial Services	Budget
Foreign Affairs	Education and Labor
Homeland Security	House Administration
Small Businesses	Judiciary
Space, Science and Technology	Natural Resources
Transportation and Infastructure	Oversight and Reform
	Rules
	Veterans Affairs
	Ways and Means

4.2 Analysis Methods

The dependent variable of this study is realized returns earned by US representatives. Abnormal returns were obtained by running regressions between the realized returns of the portfolios and market factors. The realized portfolio returns were calculated based on portfolios that mimics the share purchases or sales of US representatives. All returns were 1 month returns and were calculated based on a holding period of 1, 3, and 6 months. The abnormal returns are estimated through the regression as the alpha. The following CAPM formula was used to calculate the abnormal returns:

$$R_i - R_f = \alpha + \beta\,(R_m - R_f)$$

Where R_i is the return of the portfolio, R_f is the risk free rate, R_m is the monthly return of the overall market, and $\alpha + \beta$ are the regression outputs.

Variable	**Type**	**Description**
R_i	Dependent variable	Returns earned by portfolio that mimics that trades of US representatives.
R_f	Return of 1 month T-bill	Risk free interest rate during the time period of this study
R_m	Market return	Average return earned by the overall market
β	Regression output	Risk of portfolio as compared to market
α	Regression output	Excess return earned by portfolio

The following Fama-French 3 factor formula was used to calculate the abnormal returns:

$$R_i - R_f = \alpha + \beta_1 (R_m - R_f) + \beta_2 * SMB + \beta_3 * HML$$

Where R_i is the return of the portfolio, R_f is the risk free rate, R_m is the monthly return of the overall market, SMB is a premium the market puts on smaller companies, HML is a premium the market puts on companies with high book-to-market ratios (otherwise known as value companies), and α, β_1, β_2, and β_3 are the regression outputs.

Variable	**Type**	**Description**
R_i	Dependent variable	Returns earned by portfolio that mimics that trades of US representatives.
R_f	Risk free interest rate	Risk free rate proxied by 1 month T-bill
R_m	Market return	Average return earned by the overall market
SMB	Market premium	Premium placed on small companies by the market
HML	Market premium	Premium placed on value companies by the market
β_1	Regression output	Risk of portfolio as compared to market
β_2	Regression output	Additional expected return based on average size of the companies in the portfolio
β_3	Regression output	Additional expected return based on the average book-to-market ratio of companies in the portfolio
α	Regression output	Excess return earned by portfolio

To test the first hypotheses, an equal weight portfolio was created that mimics the share purchases of all members of the US House of Representatives using a 1 month holding period. A regression was run between the realized return from the portfolio in excess of the risk free and the overall market return in excess of the risk free rate, in accordance with the CAPM model shown above. Then a multi variate regression was run between the realized return from the portfolio in excess of the risk free and the overall market return in excess of the risk free, the premium placed on small market cap companies, and the premium placed on value companies, in accordance with the Fama-French 3 factor model shown above. The alpha output from the regression was then tested for significance. This method was replicated for 3 and 6 month holding periods.

To test the second hypothesis, a similar method was utilized. An equal weight portfolio was created based on the sales of all members of the US House of Representatives using a 1 month holding period. A regression was run between the realized return from the portfolio in excess of the risk free and the overall market return in excess of the risk free rate, in accordance with the CAPM model shown above. Then a multiple variable regression was run between the realized return from the portfolio in excess of the risk free and the overall market return in excess of the risk free, the premium placed on small market cap companies, and the premium placed on value companies, in accordance with the Fama-French model shown above. The alpha output from the regression was then tested for significance. This method was replicated for 3 and 6 month holding periods.

To test the third hypothesis, an equal weight portfolio was made for 19 of the 20 committees based on the purchases of the members of those committees. No regression was run for the ethics committee because of insufficient transaction data. A regression was run between the realized return from the portfolio in excess of the risk free and the overall market return in excess of the risk free rate, in accordance with the CAPM model shown above. Then a multiple variable regression was run between the realized return from the portfolio in excess of the risk free and the overall market return in excess of the risk free, the premium placed on small market cap companies, and the premium placed on value companies, in accordance with the Fama-French model shown above. The alpha output from the regression was then tested for significance. This method was replicated for 3 and 6 month holding periods. This method was then replicated for sales.

5. Results

The following section will cover the results of this study based on the analysis explained in the previous section. All regressions in this section were run with the returns of the various portfolios as the dependent variable. The independent variable in all the regressions was the alpha value, as a measure of the abnormal returns generated by the portfolio.

5.1 Hypothesis 1 and 2

Table 5.1 shows the alpha values from the regressions related to the first and second hypotheses. These alpha values represent the abnormal returns generated by each portfolio.

Table 5.1

Alpha Values from Regresions of Purchases and Sales made by Representatives						
	Purchases		Sales		Purchases - Sales	
	CAPM Model	Fama-French Model	CAPM Model	Fama-French Model	CAPM Model	Fama-French Model
1 month holding period	-0.702%	-0.741%	-0.598%	-0.599%	-0.104%	-0.142%
3 month holding period	-0.792%	-0.821%*	-0.348%	-0.316%	-0.444%	-0.505%
6 month holding period	-0.524%	-0.535%	-0.958%**	-0.927%**	0.434%	0.392%
*** p-value < .01, ** p-value < .05, * p-value < .10						

The alpha values from the regressions related to the first hypothesis are located under the subheading “Purchases” in table 5.1. The negative alpha values indicate that the portfolios generated negative abnormal returns, which is contradictory to the hypothesis; however, none of these alpha values are significant at the 95% confidence level. At a 90% confidence level, the Fama-French regression for the portfolio with a 6 month holding period resulted in a statistically significant negative alpha.

As shown in table 5.1 under the subheading “Sales”, the abnormal returns for the portfolios relating to hypothesis 2 were all negative. However these alpha values were not statistically significant at any confidence level for the sales portfolio with a 1 month or a 3 month holding period. For the sales portfolio with a 6 month holding period, at the 95% confidence level, statistically significant negative abnormal returns were generated using both the CAPM and the Fama-French model. The negative alpha values indicate that the portfolios generated abnormal negative returns. This is consistent with the second hypothesis.

A third set of regressions, as shown in table 5.1 under the subheading “Purchases - Sales”, were ran on a portfolio that mimicked taking long positions on all the purchases made by representatives and taking a short position on all the sales. This was done for a 1 month, 3 month, and 6 month holding period. None of these portfolios generated alphas with statistical significance.

5.2 Hypothesis 3

The regressions for the third hypothesis are shown in tables 5.2 and 5.3. Table 5.2 shows the alpha values and their significance from the regressions that were run on purchase portfolios of the standing committees in the US House of Representatives. Table 5.3 shows the alpha values and their significance from the regressions that were run on sale portfolios of the standing committees in the US House of Representatives.

First looking at the purchases of the committees (shown in table 5.2), none of the portfolios based on purchases generated statistically significant positive alphas using either the CAPM or the Fama-French models. This is contradictory to the third hypothesis which stated that certain committees would earn significantly higher alphas than others from portfolios that mimic their purchase transactions.

Looking at the portfolios created using sales from representatives (shown in table 5.3), several committees earned statistically significant negative alphas, which is consistent with the third hypothesis. The most notable committees that earned statistically significant abnormal returns from their sales were Appropriations, Judiciary, Oversight and Reform, and Veterans Affairs. None of these committees were predicted to outperform other committees.

Table 5.2

Alpha Values from Purchase Portfolios by Committee						
	CAPM			Fama-Fench 3 Factor		
	1 month holding period	3 month holding period	6 month holding period	1 month holding period	3 month holding period	6 month holding period
Agriculture	0.194%	0.303%	-0.270%	-0.194%	0.200%	-0.289%
Appropriations	0.249%	-1.458%	-1.896%*	0.424%	-1.217%	-1.711%*
Armed Forces	-0.791%	-1.135%	-0.561%	-0.890%	-1.200%	-0.511%
Budget	-2.219%*	-1.440%	-2.456%***	-1.945%	-1.203%	-2.317%
Education and Labor	-1.276%	-0.298%	-0.338%	-1.197%	-0.194%	-0.207%
Energy and Commerce	-3.885%	-4.736%*	-4.601%*	-3.690%	-4.301%	-4.226%
Financial Services	-1.139%	-0.629%	-0.819%**	-1.162%	-0.566%	-0.8%**
Foreign Affairs	-0.565%	-2.056%	-1.043%	-0.785%	-2.086%	-1.145%
Homeland Security	0.850%	0.512%	0.777%	0.352%	0.348%	0.469%
House Administration	-0.022%	1.495%	0.893%	0.308%	1.666%*	1.037%
Judiciary	0.333%	0.670%	1.535%	1.033%	1.283%	2.024%
Natural Resources	0.323%	-0.304%	-0.768%	0.482%	-0.425%	-0.572%
Oversight and Reform	-1.056%	-0.590%	0.448%	-1.478%	-0.833%	0.297%
Rules	0.608%	1.038%	0.967%	0.926%	1.169%	1.084%
Small Businesses	-0.589%	-0.337%	0.562%	-0.379%	-0.142%	0.800%
Space, Science and Technology	-0.250%	-0.004%	0.833%	-0.570%	-0.385%	0.659%
Transportation and Infastructure	-1.782%	-1.509%	-1.993%**	-1.976%*	-1.76%*	-2.004%**
Vetrans Affairs	-0.627%	-0.714%	-0.466%	-0.168%	-0.597%	-0.355%
Ways and Means	0.674%	0.236%	-0.065%	0.967%	0.433%	-0.024%
*** p-value < .01, ** p-value < .05, * p-value < .10						

Table 5.3

Alpha Values from Sales Portfolios by Committee						
	CAPM			Fama-Fench 3 Factor		
	1 month holding period	3 month holding period	6 month holding period	1 month holding period	3 month holding period	6 month holding period
Agriculture	0.874%	0.794%	-0.091%	0.126%	0.520%	-0.230%
Appropriations	-2.788%*	-2.567%***	-2.736%***	-2.519%*	-2.48%**	-2.592%***
Armed Forces	-0.538%	0.380%	-0.480%	-0.799%	0.538%	-0.462%
Budget	-3.399%	-2.885%	-2.813%	-3.088%	-2.311%	-2.364%
Education and Labor	-3.62%**	-1.685%	-2.301%*	-3.117%*	-1.254%	-2.037%
Energy and Commerce	-1.217%	-0.492%	-0.971%	-0.921%	-0.234%	-0.698%
Financial Services	-1.914%	0.105%	*-0.771%*	-1.744%	0.032%	-0.719%*
Foreign Affairs	-1.841%	-0.913%	-0.806%	-2.215%	-0.904%	-0.799%
Homeland Security	1.910%	0.600%	0.803%	1.471%	0.364%	0.678%
House Administration	-1.805%	-1.607%	-0.472%	-1.453%	-1.452%	0.122%
Judiciary	1.792%*	3.067%*	2.886%**	2.067%**	3.193%*	2.954%**
Natural Resources	2.477%	-0.275%	-0.963%	2.562%	-0.318%	-1.089%
Oversight and Reform	0.758%	-4.29%**	-3.724%**	0.315%	-3.906%***	-3.292%***
Rules	-0.756%	6.019%	1.882%	-0.731%	8.352%	2.729%
Small Businesses	-0.839%	-0.254%	0.264%	-1.200%	-0.238%	0.311%
Space, Science and Technology	2.706%	0.315%	-0.468%	3.013%	0.449%	-0.439%
Transportation and Infastructure	-2.009%	-2.834%	-2.302%	-2.020%	-2.816%	-2.302%
Vetrans Affairs	-1.815%*	-1.249%	-2.146%***	-1.966%*	-1.285%	-2.253%***
Ways and Means	-2.097%	-1.586%*	-0.843%	-2.088%	-1.551%*	-0.763%
*** p-value < .01, ** p-value < .05, * p-value < .10						

6. Discussion

The following section will discuss the implications and the findings of this study. It will also cover future research that should be conducted to further explore this subject. Based on the alpha values provided from the regressions, there is little to no evidence of widespread insider trading in the US House of Representatives.

6.1 Implications of Findings

This study found no evidence that representatives were able to outperform the overall market by purchasing shares of companies they had gained material nonpublic information about through their position in the government. In fact, all the portfolios generated by purchases of members of the House of Representatives generated negative alphas, indicating they underperformed the market when adjusting for risk. However, these findings were not statistically significant. Given this, it appears that the STOCK Act is still sufficient, at least in terms of purchases, in preventing the widespread insider trading that was seen in Congress prior to 2012.

This study also found little to no evidence that representatives were able to outperform the overall market by selling shares of companies that they had gained material nonpublic information about through their position in the government. While the alpha values for the 6 month holding period were statistically significant at the 95% confidence level, the alphas for both the 1 month and 3 month holding period were not statistically significant at any confidence level. This indicates that it is likely that the statistical significance of the 6 month holding period alpha was due to random chance, rather than insider trading. However, further research should be done to confirm or reject this conclusion. Given this, it appears that the STOCK Act is likely to still be sufficient to prevent insider trading from members of the US House of Representatives.

The regressions for the third hypothesis produced mixed results. While there was no evidence of statistically significant positive returns from the any of the purchase portfolios, several of the

committees had statistically significant negative returns for their sales portfolios. As stated in Section 5, the committees with the strongest results were Appropriations, Judiciary, Oversight and Reform, and Veterans Affairs. However, given the sporadic nature of which committees and which holding periods earned statistically significant negative returns and the large number of regressions that were run, it is possible that these alphas are due to random chance, rather than insider trading. Thus, there is not conclusive evidence that any committee provides its members with material nonpublic information that the members use for personal financial gain through insider trading. However, further research should be conducted to analyze why these committees earned statistically significant negative returns on their sales portfolios and if there is a reason to believe that these committees would have provided their members with material nonpublic information.

6.2 Limitations

One limitation of this study is that the portfolios in this study were balanced monthly, rather than weekly or daily. Because of this method, returns earned by representatives may not be fully captured. For example, if a representative purchased shares near the beginning of the month, and these shares rose or declined in value throughout the month, the transaction would not be incorporated in this study's portfolios until the end of the month, potentially after significant movement in the shares price. This is especially important given that the volatility of the stock market was incredibly high during the time period of this study due to the Covid-19 pandemic.

Another limitation is the data used for this study is self-reported by members of the US House of Representatives. While they are required under the STOCK Act to report their financial transactions, at present, there is no audit in place to ensure the accuracy of their reports or even to ensure that representatives are reporting their transactions. In fact, as previously stated in section 2, many representatives were caught disclosing their transactions after the deadline. This poses an issue because

if representatives who are engaging in insider trading ignore disclosure rules, their insider trading activity would not be detected in this study.

A third limitation is this study did not use all the financial transaction reported by members of the House of Representatives. All transactions that involved bonds and non-public companies were excluded from the data set. While this only excluded approximately 16% of transactions this is still a significant portion of the reported transactions.

6.3 Future Research

While this study does not eliminate the possibility that individuals in the House of Representatives may participate in insider trading, it does not appear, that as a whole, the members of the US House of Representatives generated statistically significant abnormal returns. This leads to some of the future research that should be conducted. One important question that this study fails to answer is if individual members of Congress participate in insider trading. This study only looked at the entirety of the House of Representatives and its committees. Further research could be done looking at the returns of individual members of Congress. While this study produced little to no evidence of widespread insider trading, there is still the possibility that individual members of Congress participated in insider trading.

Another gap that remains in the current literature is an analysis of the returns of US Senators during the Covid-19 pandemic. While the study by Belmont, Grozovsky, et al. (2020) looked at the returns of Senators in early 2020, no study to date has looked at their returns throughout the entirety of the Covid-19 pandemic. There are several reasons to believe that the results for the Senate may be different than the results for the House of Representative, such as cultural and norm difference between the two chambers and the number of members of the Senate is lower, meaning there is a higher concentration of information per member in the Senate. Given the differences between the two

chambers of Congress, the conclusions drawn in this study should not be used to draw conclusions about the Senate.

7. Conclusion

This study contributes to previous literature by analyzing the effect of the Covid-19 pandemic on congressional stock returns. The Covid-19 pandemic provided an excellent opportunity to see if members of Congress participated in insider trading because it presented a situation in which members of Congress possessed information about near future governmental reactions to the pandemic that would have a material impact on a vast amount of publicly traded companies. Through their position in the government, the members of Congress likely possessed this information prior to the public through briefings and potentially through their involvement in drafting and reviewing upcoming legislation in their respective committees. By analyzing each committee separately, this study sought to find if this information possessed by a member of Congress affected their returns.

The findings of this study are consistent with the evidence presented by previous studies done on congressional insider trading. Based on the evidence presented above, the STOCK Act is still sufficient, even during times of extreme social and political turmoil, such as the Covid-19 pandemic, at preventing widespread congressional insider trading. There was no evidence that members of the US House of Representatives used the material nonpublic information they had access to through their role in the government to purchases stock of companies that were likely to do well under the extreme economic and regulatory conditions that ensued during the pandemic. There is inconclusive evidence as to whether these representatives used this information to sell shares of companies that were likely to suffer under these circumstances.

When analyzing abnormal returns by committee, there is some evidence that certain committees may have outperformed others in terms of abnormal returns generated by their sales, but,

considering the large number of regressions that were run, more research would have to be done to determine if these results were due to insider trading or chance. The committees that had statistically significant negative abnormal returns on their sales portfolios were not the committees that were predicted to do well.

With the first hypothesis being rejected and inconclusive evidence for the second and third hypotheses, it appears that the media has overexaggerated the possibility or extent of insider trading in Congress. While there certainly are instances in which suspicious trading behavior was reported by members of Congress (see section 2.2 and 2.3), the evidence of this study does not point towards the rampant financial corruption and insider trading than many fear exists within our government.

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