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Informed Trading, the Three-Way Nature of Modern Securities Transaction, and the Halo of Insider Trading

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Abstract

This article discusses the concept of “informed trading” from two dueling angles: financial economics and law. As a concept developed since the 1980s, informed trading has gradually evolved into a concept of “probability of informed trading,” which is a numeric estimation achieved by the OLS and the Poisson Process. Based on this understanding, we discuss the three-way nature of modern securities transactions and the role that market professionals play in securities industry, with a focus on their role in transmitting information to the market and an efficient price. In its last part, this article examines several recent U.S. cases involving tipper-tippee liability and their struggle in developing a stable legal theory that can strike a balance between trading need and market fairness. It concludes

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with a middle-ground approach as a legislative recommendation for the possible solution.

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