Unreadable Political Trades

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Disclaimer: The views expressed in this discussion are solely my own and do not necessarily reflect those of the authors, Stefan Zueme (discussant), the audience at the SAIF Annual Conference where I first saw this paper last week, or even my own views after this session.

To start with...

- This must have been a very fun paper to write — conditional on surviving the enormous data work (and managing a team of 19 RAs)
- The authors work almost like Sherlock Holmes, piecing together hidden clues from messy disclosure records

Detective. Prof. Dr. Yu

An example filing

SCHEDULE B - TRANSACTIONS

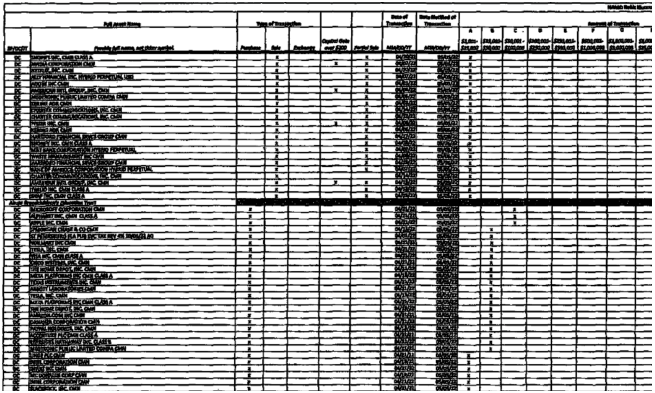
Name: Hon. Doris O. Matsui — Page 7 of 13

SP, DC, JT	Asset	Type of Transaction: Purchase	Sale	Partial Sale	Exchange	Check here if Capital Gains Exceeded $200	Date (MO/DA/YR) or Quarterly, Monthly, or Bi-weekly, if applicable	Amount of Transaction: A $1,001 - $15,000	B $15,001 - $50,000	C $50,001 - $100,000	D $100,001 - $250,000	E $250,001 - $500,000	F $500,001 - $1,000,000	G $1,000,001 - $5,000,000	H $5,000,001 - $25,000,000	I $25,000,001 - $50,000,000	J Over $50,000,000	K Over $1,000,000 (Spouse/DC Asset)
SP	Baird Aggregate Bond Fund	X					12/30/2020				X							
SP	MetWest Total Return Bond Fund	X					7/28/2020						X					
SP	MetWest Total Return Bond Fund	X					10/28/2020				X							
SP	MetWest Total Return Bond Fund	X					12/30/2020				X							
SP	AllBlue Limited																	
SP	Taconic Offshore Fund 1.5, Ltd.																	
SP	Anchorage Capital Partners Offshore, Ltd.			X			10/21/2020					X						
SP	Vanguard Total Stock Market ETF			X			4/13/2020						X					
SP	Fir Tree International Value Fund II, Ltd.			X			8/20/2020	X										
SP	Fir Tree International Value Fund II, Ltd.			X			12/22/2020	X										
	Persimmon Charitable Remainder Trust																	
SP	U.S. Treasury Note 3.375% due 08/15/2020			X			7/31/2020					X						
SP	U.S. Treasury Note 2.625% due 07/15/2021												X					
SP	Baird Aggregate Bond Fund	X					7/28/2020											X
SP	Baird Aggregate Bond Fund	X					8/3/2020											X
SP	Baird Aggregate Bond Fund	X					9/18/2020											X
SP	Baird Aggregate Bond Fund	X					12/22/2020						X					
SP	MetWest Total Return Bond Fund	X					7/28/2020											X
SP	MetWest Total Return Bond Fund	X					8/3/2020											X
SP	MetWest Total Return Bond Fund	X					9/18/2020											X
SP	MetWest Total Return Bond Fund	X					12/22/2020						X					
SP	AG Super Fund International																	
SP	AG CSF Annex Fund Ltd.	X					8/18/2020					X						
SP	AllBlue Limited																	
SP	Davidson Kempner International (BVI), Ltd.																	
SP	Centerbridge Credit Partners Offshore, Ltd.			X			4/28/2020	X										
SP	Centerbridge Credit Partners Offshore, Ltd.			X			10/30/2020	X										
SP	Vanguard Total Stock Market ETF			X			4/13/2020											X
SP	Tiger Global Long Opportunities, Ltd.																	
SP	The Children's Investment Fund																	
SP	Tiger Global, Ltd.																	
SP	Parvus European Abs. Opp. Fund, Ltd.			X			8/11/2020			X								
SP	Parvus European Abs. Opp. Fund, Ltd			X			10/14/2020				X							
SP	The Overlook Partners Fund, LP			X			7/31/2020											X
SP	Fir Tree International Value Fund II, Ltd			X			4/17/2020				X							
SP	Fir Tree International Value Fund II, Ltd.			X			8/20/2020	X										
SP	Fir Tree International Value Fund II, Ltd.			X			12/22/2020	X										
SP	TPG - Axon Offshore																	
SP	Sonshine Charitable Remainder Unitrust																	
SP	Park Trust																	

- Production input for this piece of research is special: good eyesight, best OCR technology (with LLM), or an old-school magnifying glass

But even all of these can fail

It can be worse



- 18 pages of black blotches of ink, more or less...
- Some are abbreviation-riddled, some scratch out mistakes and leave handwritten notes, some seem to use their own cryptology

What does the investigation give us?

- Uncover irregular patterns hidden in disclosure files, and use those clues to speak to first-order questions about disclosure, political decision-making & informed trading
  1. Trades in unreadable filings: more profitable, larger, more family-routed, filed less promptly
  2. Pre-enactment trading similarity in unreadable filings reveals a latent cross-partisan network that can predict future bill co-sponsorship

- Impressive data work and convincing evidence

- Network part is very creative use of the data

My discussion

- Comment #1: Context and contribution
- Comment #2: Identification relies on cross-sectional variation — time-series evidence would strengthen causal claims
- Comment #3: The two parts of the paper feels a bit disconnected: either tighten the bridge or split the paper (and enrich each part)
- Additional comments

Comment #1 Big Picture: Returns to Political Office

- A central political economy question:

  How do politicians extract private economic benefits from public office?

- Existing literature documents substantial "returns to office"
  - Fisman, Schulz, and Vig (2014): election winners in India accumulate wealth significantly faster than runners-up

- More recent work shifts attention toward how these rents are generated
  - Mostly focus on public equity market
  - Real estate market: Baldauf, Favilukis, Garlappi, and Zheng (2026)

Evidence on politicians' equity trading is mixed

- Evidence of outperformance / informed trading
  - Ziobrowski et al. (2004, 2011): Senators and Representatives outperform the market
  - Tahoun (2014): evidence consistent with quid pro quo connections between political donations and equity purchases
  - Karadas (2018): politicians and spouses outperform pre-STOCK Act
- Limited or no systematic outperformance
  - Lenz and Lim (2009): Rep. do not accumulate wealth faster than matched individuals
  - Eggers and Hainmueller (2013): little abnormal performance once extending sample/coverage
  - Cherry, Heitz, and Jens (2018): no outperformance pre-STOCK, underperformance afterward
  - Belmont, Sacerdote, and Van Hoek (2020): slight underperformance post-2012 except around Covid briefing trades
  - Wei and Zhou (2025): leadership members outperform regular Congress members, but absolute alpha remains near zero
- Some related nuances
  - Eggers and Hainmueller (2014): strong local/home-district tilts in Congressional portfolios
  - Karadas (2018): spouses outperform, children underperform

What does this paper add?

1. Helps reinterpret mixed evidence on politicians' equity trading
   - Existing studies may understate political trading advantages if the most informative trades are selectively harder to process or disseminate (for researchers)
2. Identifies a specific source of political trading gains
   - Profits are concentrated in opaque, strategically disclosed trades
3. Provides unusually granular evidence
   - Brings analysis from politician level to very granular trade level
4. Reveals a hidden political network with potential downstream consequences
   - Trading links predict future legislative coordination
   - Suggests private financial incentives may be connected to the legislative process
5. Provides ingredients to think about future policy
   - Proposed Ending Trading and Holdings In Congressional Stocks (ETHICS) Act, which prohibits members of Congress from trading in individual stocks (Senate - 12/19/2024)

Comment #2: Cross-sectional vs. Time-series variation

- Readable vs. unreadable comparison, but serious identification efforts:
  - Rich legislator controls: age, seniority, party affiliation
  - Stock and year-month fixed effects
  - FOMC windows + 50 macro surprise controls
  - Continuous AI unreadability measure (Gemini 3 Pro) as robustness
- Readable vs. unreadable filers are different legislators
  - Format choice may be correlated with unobserved trading-relevant traits
  - Examples: wealth, financial sophistication, family background, spouse/children's occupations, use of wealth managers

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- ⋆ Formally analyze the determinants of choosing unreadable filings
  - How much is explainable by observables/controls?
- ⋆ Consider time-series variation from different sources (see below)

Comment #2: (i) Switchers

Several legislators file in both formats: within-legislator variation exists but is unexplored

	Readable	Unreadable	Total
Panel A: Univariate Comparison			
# of PTRs	3,532	1,581	5,113
# of congressional members	201	129	275
Republican	104	67	151
Democrat	95	61	122
Libertarian	1	0	1
Independent	1	1	1

- 55 legislators (about 20%) appear in both readable and unreadable filings
- 146 (74) legislators appear only in readable (unreadable) filings
- When do they switch and why?

Comment #2: (ii) Electoral Cycle

- Election dates are pre-scheduled and exogenous
- One cost of suspicious unreadable filings being disclosed: electoral punishment
  - Pre-election: opposition research, media, watchdogs all more active
  - Mid-term: low scrutiny, low detection risk

$\Rightarrow$ Unreadable trading most aggressive mid-term; suppressed pre-election

$\star$ Examine trading behavior within persistent unreadable filers within an electoral cycle

- Volume/profitability of unreadable trades across the 2-year cycle
- Composition: shift toward less policy-sensitive stocks pre-election
- Family account usage: more suppressed pre-election?
- Heterogeneity: competitive districts $\gg$ safe seats
- Placebo: retiring legislators (discipline vanishes after retirement announcement)

Comment #2: (iii) Watchdog Processing/Information Dissemination

- Congressional trades are increasingly processed by external watchdogs and media outlets
  - Quiver Quantitative, Capitol Trades, Business Insider investigations, Campaign Legal Center
- If the value of unreadable filings comes from temporary opacity:
  - Return premium should decline over time as OCR, AI, and watchdog coverage improve

⋆ How does the unreadable-trade premium evolve over calendar time? Is the premium realized faster or more slowly after the trade?

⋆ Do legislators reduce unreadable trading after public scrutiny events?
  - Senator Richard Burr DOJ investigation (2020 COVID trades)
  - NYT / WSJ investigations into congressional defense committee trading
  - Business Insider STOCK Act investigations

Comment #2: (iv) Incentives from successful trades

- Strategic opacity may become self-reinforcing over time
  - Profitable trades that are effectively concealed can strengthen incentives for future trading
  - Legislators update: trades are profitable, concealment strategy works
- Opacity can lower expected costs of informed trading (scrutiny/reputation)
  - Past concealed profitable trades reveal that these expected costs are low
  - This mechanism is more than trading skill (no concealment update, weaker reinforcement)

⋆ Construct rolling accumulated abnormal profits at the legislator-month level, test if higher past profits predict:
  - larger future trades, broader trading activity
  - more family-member trading
  - more filing near disclosure deadlines

⋆ Are these responses stronger for unreadable filers than for machine-readable filers?

Comment #3: Structure of the Paper

- The paper contains two ambitious and highly interesting components:
  - 1st half strategic disclosure and (informed) trading
  - 2nd half hidden political networks and legislative coordination

- 1st part builds into 2nd part, but 2nd part does not circle back
  - Each part is a substantial contribution and potentially publishable on its own

⋆ Two possible directions:
  - Option A: tighten the connection between the two parts in a more unified mechanism
  - Option B: split into two more focused papers and enrich each component separately

Option A: Tightening the Connection

- Can we link profitable trades to the hidden political networks?
  - Does opacity facilitates coordinated informed trading?

1 Are connected legislators driving the return premium?
  - If the network is economically meaningful, profitable unreadable trades should be concentrated among connected legislators

2 Do more central legislators in the unreadable network earn higher returns?
  - Centrality should proxy for access to more political information

3 Do network trades cluster before legislative events? Do they generate more profits?
  - Stronger timing around bill passage would suggest information-based coordination rather than generic stock-picking skill

4 Are these patterns stronger for policy-sensitive or bill-exposed industries?
  - This would connect the trades directly to the legislative information being generated

Option B: Enrich 1st half

- Most items in Comment #1 are about 1st half of the paper
- More explicitly model the legislator's optimization problem
  - What are they maximizing? How does filing format enter?
  - Unreadable filings reduce monitoring effectiveness
  - Unreadable filings themselves may attract attention or suspicion
  - Dynamic/repeated-game considerations
- Holding periods may be informative about economic source of profits
  - Short holding periods $\Rightarrow$ informational advantage or superior timing around news arrival
  - Longer holding periods $\Rightarrow$ ability to continuously shape and coordinate downstream legislative implementation and policy outcomes
- Magnitude: is opacity a first-order strategic choice?
  - vs. experience or other proxies of financial sophistication
  - vs. home district firm advantage as in Eggers and Hainmueller (2014)

Option B: Enrich 2nd half

- Address whether the documented network is mechanically generated
  - Unreadable PTRs contain many more transactions: 38.7 vs. 8.9 for readable filings
  - More trades mechanically increase the probability that two legislators overlap in holdings
  - Need normalization holding trading intensity fixed or permutation tests
- Better characterize the economic content of the network
  - How stable? Does each act reveal similar networks? currently unified vs. divided government
    Same dyads repeatedly appearing across acts $\Rightarrow$ standing arrangement
    Rapidly changing dyads $\Rightarrow$ opportunistic one-off coordination
  - Who sits at the center and what drives this?
  - Higher-order network structure (formal analysis): clusters, broker nodes, etc.

Option B: Enrich 2nd half

- Explore information hierarchy inside the network
  - Do peripheral legislators trade after central legislators?
  - Does trading propagate through the network over (a short span of) time?
- The network evidence currently relies on 12 major fiscal acts, expand it?
  - The approach is well motivated and intuitive, but the resulting network is relatively sparse
  - Narrow event definitions may also miss repeated interactions
  - Can the setting be expanded beyond these 12 events? esp. acts with a larger *news* component: more surprising, uncertain, or sensitive to a few legislators' support ex ante
- Information sharing vs. political capture
  - How critical are these co-sponsorship through network? Are network-linked co-sponsors marginal/pivotal supporters?
  - Downstream consequences of these bills? Is such co-sponsorship costly?

Additional Comments/Questions

- Oster (2019) test
  - Reporting δ and $R_{\max}$ directly addresses the cross-sectional identification concern
- Sample unit and clustering
  - Five levels of observation across Tables 2–4; clustering also shifts across specifications
  - A brief note on the logic of each choice would improve transparency
- Sales vs. purchases
  - Which one is more informative? Are the patterns symmetric?
- How are call/put options treated in the analysis? Are index funds and ETFs all excluded?

Wrap Up

- Original paper with a clean setting and very crisp findings
- Three comments/suggestions:
  1. Highlight big picture contribution
  2. Add time-series variation
  3. Bridge or split

A fascinating read — looking forward to the next version