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## Members of Congress Get Abnormally High Returns From Their Stocks

First Posted: 05/24/11 03:58 PM ET Updated: 05/24/11 04:39 PM ET

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Members of the House of Representatives considerably outperform the stock market in their personal investments, according to a new academic study.

Four university researchers examined 16,000 common stock transactions made by approximately 300 House representatives from 1985 to 2001, and found what they call "significant positive abnormal returns," with portfolios based on congressional trades beating the market by about 6 percent annually.

What's their secret? [The report](#) speculates, but does not conclude, it could have something to do with the ability members of Congress have to trade on non-public information or to vote their own pocketbooks -- or both.

A [study of senators](#) by the same team of researchers five years ago found members of the higher chamber even better at beating the market -- outperforming it by about 10 percent, an amount the academics said was "both economically large and statistically significant."

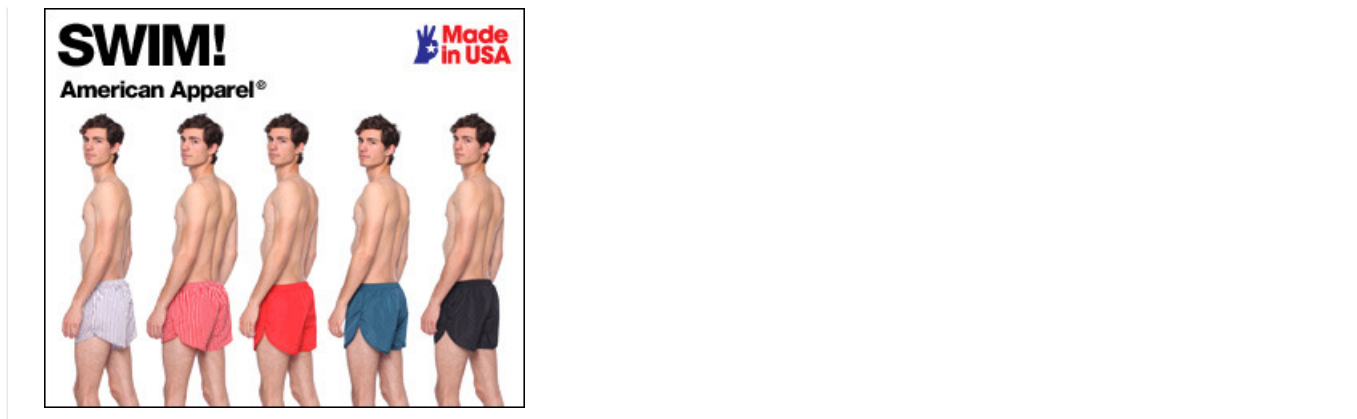
"Being one of 435, as opposed to one of 100, is likely to result in a significant dilution of power relative to members of the Senate," the researchers wrote.

The researchers, Alan J. Ziobrowski of Georgia State University, James W. Boyd of Lindenwood University, Ping Cheng of Florida Atlantic University and Brigitte J. Ziobrowski of Augusta State University, noted that the circumstances are ripe for abuse.

"In the course of performing their normal duties, members of Congress have access to non-public information that could have a substantial impact on certain businesses, industries or the economy as a whole. If used as the basis for common stock transactions, such information could yield significant personal trading profits," they wrote.

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At the same time, House rules don't require them to divest themselves of common stocks when they assume office, don't prevent them from trading freely while in office -- and don't require them to recuse themselves from votes that could affect their own interests.

The [House ethics manual](#) clearly states that "all Members, officers, and employees are prohibited from improperly using their official positions for personal gain" and members must [disclose their holdings](#) annually.

But the House's official position is that demanding that members either divest themselves of potential conflicts or recuse themselves when there is a conflict is "impractical or unreasonable" because it "could result in the disenfranchisement of a Member's entire constituency on particular issues."

Ever since 2006, a small coterie of Democrats has been trying to [officially prohibit](#) members of Congress and their staffs from using non-public information to enrich their personal portfolios.

The [Stop Trading on Congressional Knowledge](#) (STOCK) Act was most recently re-introduced [in March](#) by [Reps. Louise Slaughter \(N.Y.\) and Tim Walz \(Minn.\)](#). It has not been heard from since.

The study found some significant difference based on party membership and seniority, with the Democratic sample beating the market by nearly 9% annually, versus only about 2% annually for the Republican sample.

And representatives with the least seniority considerably outperformed those with more seniority.

Why would that be? The researchers suspect need had something to do with it. "The financial condition of a freshman Congressman is far more precarious" than a senior member's, they wrote. "House Members with the least seniority may have fewer opportunities to trade on privileged information, but they may be the most highly motivated to do so when the opportunities arise."

The report does not make any firm conclusions on causality, although the researchers explain that their kind of "event analysis" has become a common "method for analyzing whether actors have profited from confidential information in their possession."

\* \* \* \* \*

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stock portfolios of congress members, most of whom are financially very well off, should be place in a blind trust for the duration of their terms, managed by a third part on their behalf that has no such access to insider information.

these people have taken so many privileges for themselves that they can't possibly [Read More...](#) represent the people who elected them any more. that's got to stop. until they have to live like everyone else, they will never be able to use proper judgment in their dealings.

peacekitten: insider trading is illegal, no matter who does it.<br><br>stock portfolios

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