

Many managers hold stocks in the companies they oversee, a practice intended to align their interests with those of shareholders. The interplay between managerial and ownership decisions may, however, lead to unintended consequences. Discretionary holdings generate feedback effects that can explain why stocks of firms with high CEO ownership are consistently traded below value and yield excess returns to stockholders. Mandatory disclosure policies, though designed to enhance transparency, might inadvertently prompt myopic trading behaviors influenced by fluctuations in the manager's holdings. We test these implications of managerial ownership in a controlled experiment. We find that the prices converge towards the equilibrium price predicted by a model allowing for feedback effects. The value of the stock to shareholders may be higher than the price, implying excess returns, depending on the environment. Furthermore, a mandatory-disclosure-of-ownership policy has two effects. On the one hand, it allows the managers to extract funds from shareholders due to myopic trading. On the other hand, it also facilitates price convergence and increases efficiency, leading to gains for both managers and shareholders.