

DISCUSSION:
“SHOULD THE PUBLIC BE CONCERNED ABOUT
CONGRESSIONAL STOCK TRADING?”

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- Stop Trading on Congressional Knowledge Act: **Explicitly prohibits** members of Congress, their staff, and other federal employees from using **non-public information** gained through their official roles for personal financial gain.
- **Requires timely disclosure** (within 30 days of notification, within 45 days of transaction) of trades worth over \$1,000.

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- **2020 COVID-19 scandal:**

- Several senators traded stocks after private pandemic briefings.
- Led to DOJ and SEC investigations, but no prosecutions.

- **2022-2023, Multiple bipartisan bills proposed:**

- Ban Congressional Stock Trading Act
- TRUST in Congress Act

- **As of 2025, no comprehensive ban has passed.**

Artific

Do lawmakers beat the market?

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NANC vs KRUZ: Battle of the Congress Stock Trackers

One of these congressional insider-inspired ETFs is beating the S&P 500.



By Kent Thune | Edited by: James Rubin

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NANC ▼ -0.70%

KRUZ ▲ 0.00%

SPY ▼ -0.60%

While Congressional approval ratings have trended near all-time lows, exchange-traded funds that track the investments of Congress members have performed much better.

The Unusual Whales Subversive Democratic Trading ETF (NANC) and the Unusual Whales Subversive Republican Trading ETF (KRUZ) mimic the stock picks of opposing sides of the U.S. Congress.

NANC VS. KRUZ - PERFORMANCE COMPARISON

The chart below illustrates the hypothetical performance of a \$10,000 investment in Subversive Unusual Whales Democratic ETF (NANC) and Unusual Whales Subversive Republican Trading ETF (KRUZ). The values are adjusted to include any dividend payments, if applicable.



<https://portfolioslab.com/tools/stock-comparison/NANC/KRUZ>

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As of August 31, 2025: NANC's AUM around \$240 million; KRUZ: \$60 million.

MEDIA, PUBLIC AWARENESS, AND WHY WE WANT TO STUDY IT:

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Are they really outperforming? Pelosi holds mostly high-growth tech giants, and Cruz holds mostly traditional (value) sectors. Is this media sensation capturing **traditional bucket factors** or **Politician-specific information-driven outperformance**?

The literature has initiated a few questions, but there is limited research, limited agreement:

1 Are congressional members' portfolios actually outperforming?

- Early studies (Ziobrowski et al. 2004, 2011): evidence of systematic **outperformance** pre-STOCK Act.
- Eggers and Hainmueller (2013): **underperformance** in later sample.
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2 More explicitly, what explains their financial behaviors?

- Huang and Xuan (2023): Insider-information – Politically connected firms
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3 How does the public perceive it?

- Dong and Xu (2025): Individual stock prices respond significantly on the disclosure date, and results are stronger when a relevant legal bill is eventually passed after the disclosure date. {expected fiscal policy channel.}
- **This paper** contributes using direct Survey data (989, March 2025, Prolific).

(I): DATA & THERE IS SOME MATH IN THE PAPER :)

Data inputs:

- Congressional trade disclosures: Jan 2012–mid-May 2025; returns from CRSP
- Cumulative abnormal returns for each trade j by member i on day t ($D_{i,j} = +1/-1$):

$$r_{i,j} \equiv D_{i,j} \left(\prod_{k=1}^{63} (1 + r_{j,t+k}) - \prod_{k=1}^{63} (1 + r_{m,t+k}) \right)$$

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Hierarchical latent structure:

- Member-level “ever informed” indicator $\delta_i \in \{0, 1\}$ with $\pi \equiv \Pr(\delta_i = 1)$
- Returns follow a two-component mixture:

$$r_{i,j} = \begin{cases} \alpha_i + \varepsilon_{i,j}, & \text{informed} \\ 0 + \varepsilon_{i,j}, & \text{uninformed} \end{cases}, \quad \alpha_i > 0, \quad \alpha_i \sim \text{Exponential}(\mu)$$

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Survey-elicited priors:

- Prior for π : Beta(a_π, b_π) fitted to survey: mean $\approx 67\%$.
- Prior for μ (profitability of informed trades): mean $\approx 36\%$, mode $\approx 28\%$.

Posterior distribution:

- Update beliefs about each member's parameters given their observed trading returns, while jointly estimating the average parameters π and μ that govern the cross-section.

Method:

- Markov Chain Monte Carlo

Headline results:

- ① **Posterior mean of $\pi = 92.5\%$** $\Rightarrow$ Vast majority of members are inferred to have ever traded on private information.
- ② **Posterior mean of $p_i \approx 2.5\%$** $\Rightarrow$ Informed trades are rare within a member's portfolio.
- ③ **Posterior mean of $\mu \approx 31\%$** $\Rightarrow$ Profitability conditional on informed trade is close to survey prior.

Interpretation & reconciliation

- Most members appear to make *at least one* informed trade (*extensive* margin high), but such trades are *rare* within their activity (*intensive* margin low).
- Explains why average outperformance looks weak while episodic spikes (COVID-19, tariffs, Iran deal) show strong signals.
- Public concerns of informed trading is valid.
- Rich heterogeneity inferences.

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- **Conceptual takeaways**

- Paper asks: “Should the public be concerned?”
- But uses public concern to shape priors $\rightarrow$ risks reinforcing the premise.

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- **Politician salience:**

- Benchmark congressional trading against: Sophisticated retail investors (Robinhood, brokerage data); or executives and corporate insiders (Form 4 filings).
- If Congress consistently anticipates events better than comparable groups, that strengthens the case for informational advantage.

OVERALL, SUPER EXCITING AGENDA!

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Main message to my Chair, Joey:

- Time to conclude the session!
- And Thanks to the organizers for a truly wonderful conference! :)