

## The Rational Trader Risk

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December 2003

Allowing for a richer information structure than usual, we show that the possibility of early liquidation may heavily influence the behaviour of rational traders even if the interim price is not influenced by non-rational agents i.e. there is no noise trader risk. Instead, traders expect that new rational entrants with different information in the interior period will drive the price against them. Consequently, rational traders in the first period will hesitate to trade on their private information or - in the extreme - will trade against their private information i.e. buy more of the risky asset when they consider it worse.

In the first part we develop a traditional microstructure model with learning where the above effect will result in severe inefficiency and mispricing. In the second part, we derive the general, distribution independent characterization of the information structure driving our findings.