



Finally, a floor in sight (Bloomberg News)

Looking for a sign? Insiders buying stocks like mad

Corporate executives pouncing on shares of their companies; what do they know that retail investors don't?

August 11, 2011 7:36 am ET

More executives at Standard & Poor's 500 Index companies are buying their stock than any time since the depths of the credit crisis after valuations plunged 25 percent below their five-decade average.

Sixty-six insiders at 50 companies bought shares between Aug. 3 and Aug. 9, the most since the five days ended March 9, 2009, when the benchmark index for U.S. equities reached a 12-year low, according to data compiled by Bloomberg. Morgan Stanley Chief Executive Officer James Gorman and two other managers purchased 175,000 shares of the New York-based bank as the shares fell to the lowest level since March 2009, according to filings with the U.S. Securities and Exchange Commission.

Almost \$3 trillion has been erased from U.S. equity values in the last three weeks as signs the economy is slowing and S&P's downgrade of the government's AAA credit rating left the benchmark gauge for U.S. shares within 30 points of a bear market. Some analysts say insider buying is bullish because executives have the best information about their prospects.

“Nobody knows a company better than the people running it,” Shawn Price, who manages \$2.4 billion at Navellier & Associates Inc. in Reno, Nevada, said in a telephone interview. “It’s a positive sign that they are committing their personal capital.”

Stocks Drop

CEOs, directors and senior officers bought stock as the S&P 500 fell 18 percent from this year's high on April 29 on concern about Europe's debt crisis and the political battle over the U.S. debt ceiling. The index is trading at 12.3 times earnings in the past year, compared with its average since 1954 of 16.4, data compiled by Bloomberg show.

Gorman's purchase of 100,000 shares was his first since joining Morgan Stanley in 2006 and the biggest stock acquisition among the firm's executives in more than four years, according to Princeton, New Jersey-based InsiderScore.com, which analyzes insider transactions. Chief Financial Officer Ruth Porat and Paul J. Taubman, co-head of the firm's investment bank, also bought stock.

Morgan Stanley fell 19 percent from July 21 through Aug. 4, the day of Gorman's purchase. It has lost 17 percent since, falling to \$16.45 yesterday, the lowest level since January 2009, data compiled by Bloomberg show.

General Motors Co. CEO Dan Akerson purchased \$250,500 in shares of the automaker on Aug. 9, a day before the stock fell 6.3 percent to \$23.92, the lowest level since its November initial public offering and down 35 percent for 2011. Akerson bought 10,000 shares for \$25.05 each, bringing his total to 103,600, Detroit-based GM said in a regulatory filing.

MEMC Electronic

CEO Ahmad Chatila and five other officers at MEMC Electronic Materials Inc., which has a price-earnings ratio of 8.4, bought a combined 468,057 shares of the silicon-wafer maker on Aug. 5, when the stock sank to the lowest level since October 2002, regulatory filings showed. Shares of the St. Peters, Missouri-based company rallied 19 percent to \$5.93 on Aug. 9, when the transactions were disclosed.

Robert Hugin, the chairman and CEO of Summit, New Jersey-based Celgene Corp., bought shares of the maker of blood-cancer drugs for the first time since at least 2003, according to data compiled by InsiderScore. Hugin acquired 10,000 shares on Aug. 8, when the stock fell to a five-month low, while Chief Financial Officer Jackie Fouse bought shares three times this month, according to SEC filings. The stock climbed 4.2 percent on Aug. 9 and closed at \$51.85 yesterday, down 12 percent for the year, data compiled by Bloomberg show.

Insiders Buying

A total of 919 insiders bought stock among all publicly listed U.S. companies between Aug. 1 and yesterday, data compiled by InsiderScore show. That compares with a monthly average of 1,065 transactions in data going back to January 2004. About 1,390 insiders bought during the first 10 days of March 2009, InsiderScore data show.

Executives at 14 S&P 500 companies sold shares between Aug. 3 and Aug. 9, according to Bloomberg data, bringing the ratio of those with buyers and those with sellers to 7 to 2. Since the beginning of 2004, there have been on average 3.08 companies in the S&P 500 with sellers for every company with buyers, according to InsiderScore.

“It’s a fire sale and the insiders are stepping up to buy at these prices,” Daniel Genter, who oversees about \$3.7 billion as president of Los Angeles-based RNC Genter Capital Management, said in a

telephone interview. "The insiders are saying that the lower valuation is unreasonable because they believe the earnings power of their companies is likely to go up."

Rising Profits

Earnings per share increased 17 percent among the S&P 500 companies that have released quarterly results since July 11, according to data compiled by Bloomberg. About three-quarters of the companies have topped the average analyst profit forecast, the data show. Sales rose 13 percent during that period.

Insider behavior doesn't always foreshadow stock moves, according to Michael Yoshikami, chief investment strategist at YCMNet Advisors. Selling by S&P 500 executives reached a record in November as the index was in the midst of a 33 percent rally from July 2 to April 29, 2011. They increased sales in August 2009 when the S&P 500 was halfway through an advance in which it doubled, data compiled by Bloomberg and InsiderScore show.

"It's not a perfect indicator," Yoshikami, who manages about \$1 billion in Walnut Creek, California, said in a telephone interview. "Insiders can be wrong and get carried away by emotion. Just think about all the technology executives who didn't sell at the highs because they were overly optimistic."

The end of earnings season leads to an increase in insider transactions because executives are prevented from buying or selling before announcements, according to Ben Silverman, the Seattle-based research director at InsiderScore. Of the companies in the S&P 500, 427 have reported results since July 11, according to data compiled by Bloomberg.

U.S. laws require executives and directors to disclose stock purchases or sales within two business days. The data don't include transactions related to options and so-called 10b5-1 programs, which allow executives to cash out a portion of their holdings when stocks reach predetermined prices. --
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