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INSIDE SCOOP

Large Stocks Are in Charge

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Insider Tables: [Buyers](#) | [Sellers](#)

THE DOW JONES INDUSTRIAL AVERAGE closed Wednesday at its highest level in almost five years, and improving insider sentiment indicates this positive momentum may continue through 2006.

"Large-cap names give off very few strong buy signals in general, but when they do, it generally presages a longer-term bias in their favor in terms of stock prices," says Michael Painchaud, managing director of research at Market Profile Theorems, or MPT.

Insiders at [AT&T](#), [General Electric](#) and [Intel](#) have recently made their largest open-market purchases in years.

Large-cap stocks have been underperforming for several years, but Painchaud says that the positive sentiment of Dow insiders supports the idea that large caps (excluding financials) "will outperform the market over the next 12 months."

Thomas McManus, chief market strategist at Banc of America Securities, finds that "large-cap stocks are attractively valued."

McManus says macroeconomic factors, such as a slower growth rate in the economy and easing commodity prices, and the fact that smaller stocks have already had a bull run should favor large-cap stock performance over smaller stocks and even bonds.

Since October, Dow insiders purchased an average \$1.5 million in stocks per month in the open market, says Mark LoPresti, Thomson Financial's senior quantitative analyst. In fact, he says, "insiders have not purchased more than \$1 million in stocks for six consecutive months in the last five years."

March Thomson data indicate that insiders sold \$9.76 in Dow stocks for every \$1 bought in the open market. That comparison is down from February figures that show \$89 in Dow stocks sold per \$1 bought. In the entire market, insiders in March sold \$57.27 in stock for each \$1 in stock they bought on the open market; in February, insiders sold \$61.51 in stock for each \$1 they bought.

LoPresti says the insider sell-buy ratio can fluctuate dramatically from month to month, but the peaks of the sales by Dow insiders have persistently trended lower over the past several months.

Insider sentiment among the Dow stocks has improved not only based on ramped-up buying activity, but also by fewer sales than in the past, notes Painchaud.

"[B]uys help to address sentiment much more effectively than sells," he says. Technology insiders, for example, tend to heavily sell shares because their compensation is heavily tied to options.

Of the 30 Dow component stocks, insider sentiment from MPT data indicates a Buy signal for 16: AT&T, General Electric, Intel, [Alcoa](#), [American Express](#), [Citigroup](#), [DuPont](#), [General Motors](#), [Home Depot](#), [Hewlett-Packard](#), [Johnson & Johnson](#), [J.P. Morgan](#), [Coca-Cola](#), [3M](#), [United Technologies](#) and [Exxon Mobil](#).

MPT's proprietary model analyzes current insider activity to the norm at each company determined by 17 years of trading data.

While corporate attitudes can shift fairly quickly at small caps, Buy signals may hold longer at large caps where revenue is often derived from diverse sources and "the career path may be longer" for executives, says LoPresti.

Insiders at GE are sending some of the strongest signals among the Dow stocks, with the highest level of buying in five years. Chief Executive Jeffrey Immelt and four directors have purchased \$3.6 million in shares so far in the first calendar quarter, compared to the five-year average of nearly \$800,000 for the same period, according to

Thomson Financial. (See Inside Scoop, "[GE's CEO Adds to His Stake](#)," Jan. 24, 2006.)

Meanwhile, AT&T and Intel insiders made their largest open-market buys in the past five years. (See Inside Scoop, "[Insiders Like What's Inside Intel](#)," Jan. 30, 2006, and Inside Scoop, "[AT&T Director Doubles Stake](#)," March 9, 2006.)

In the cases of Johnson & Johnson, H-P, GM and Exxon Mobil, for example, insider selling noticeably declined in recent months based on historical norms, thus boosting sentiment gauged by the MPT insider model. "Everybody hates GM right now, but the insiders like it," says Painchaud.

So by aggregating positive behavior in one company across the entire Dow index, "I see more confirmation that insiders see more value in large caps," than at smaller-cap stocks right now, says Painchaud.

Banc of America's McManus, who recommends a 55% portfolio weighting in stocks, favors consumer staples such as Home Depot among other diversified large caps with attractive dividend yields.

Insiders have sold about \$1.2 million in Home Depot shares so far in the first calendar quarter, less than the five-year average of \$4.6 million for the quarter, according to Thomson Financial.

Painchaud notes that "it pays to pay attention" to current Dow insider activity to fine-tune investment ideas.