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Insiders looking outside for hints on investing

Stock market researcher Michael Painchaud calls it "the Bermuda Triangle" for investors--also known as September. Company insiders know their companies better than arm's-length investors, said Painchaud, research director of Seattle-based Market Profile Theorems. But insiders also are well aware of market trends, and they are growing more cautious. "The behavior of corporate insiders squares with concerns about the fall of the year being a tough period for the market and getting better buying opportunities in September and October," he said. Over recent years the use of stock options and other stock-related awards as a substitute for cash compensation has decreased the value of insider trading as an insight into a company's prospects but increased its value as a window on the overall market. Insiders are taking a short-term profit-maximizing view in their buy/sell decisions, in part because careers at a particular company are growing shorter, said Mark LoPresti, an analyst at Thomson Financial. "The reasons they sell are more reactive," he said. Non-company factors are increasingly important in buy/sell decisions, he said. In recent weeks insider trading sentiment "has gotten more bearish in the face of flat and falling market prices," Painchaud said. "There is no bargain hunting at this point." Insider optimism increased beginning in April and currently stands "in a neutral range," LoPresti said. Painchaud's firm has unveiled a service for institutional investors that depicts insider buying in relation to earnings estimates and the relative strength of the stock versus the market. While insiders increasingly follow general market trends, unusual insider activity provides insights into danger zones and opportunities within sectors and industries. - Energy: The top performing sector this year has been beset by weak support among insiders--a clear red flag. Typical of the sector is Exxon Mobil, a component of the Dow Jones industrial average. Insider support at Exxon took a sharp negative turn in early August. LoPresti said his latest data show an upturn in buying by energy company insiders overall. - Insurance: Insiders at property/casualty companies have turned bearish, LoPresti said. Painchaud's data indicate moderate insider support in the industry, despite robust earnings optimism. For example, HCC Insurance, a major property/casualty underwriter, displays weak insider buying. - Utilities: One of the year's surprisingly strong groups, utility stocks, generally enjoys a high level of insider buying support. The trend has persisted, along with earnings optimism and above-average relative strength in the stocks. Painchaud's data show strong insider support at CMS Energy but weak support at Exelon. - Health care: Upbeat insider readings can be found in the health-care equipment industry. Painchaud's data show insider buying well above trend, despite a subpar earnings picture. "There's a sector that could run contrary to the market," LoPresti said. For example, Beckman Coulter, a maker of medical instruments, displays strong insider support in the face of weak sentiment among analysts. -----

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