

## CFA INSIDE INFO: Solectron Buyers Begin To Reverse Trend

By Tony Cooke

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WASHINGTON -(Dow Jones)- A morsel means more to a man if he's starving, and a bit of rain in a drought is especially welcome, but not everyone agrees that a little insider buying after a deluge of selling is a strong positive signal.

Insiders at Solectron Corp. (SLR) have done about 650 transactions since the fall of 1992, said Michael Painchaud, director of research at Market Profile Theorems, an independent quantitative research service. Through September, he said, all but two of those transactions were sales.

This month, however, insiders have begun to buy the stock, with five buyers spending a total of \$500,831 to acquire 225,000 shares for an average price of \$1.82 a share, according to filings made with the Securities and Exchange Commission.

"we call this 'out-of-range behavior,' " said Painchaud, who views the insiders' reversal as being a particularly strong buying signal.

Painchaud, who doesn't hold any position in Solectron, rates the company a "10" on his firm's 1-to-10 insider scale, which assigns the highest ratings to companies whose insiders send the strongest buy signals. In fact, he said, the insider purchases in the wake of insider sales are so impressive that Solectron is "in another category" - among the top 10 of 2,500 ranked companies, he said.

### 'Need To See More Consensus'

Other observers of insider activity aren't so confident. Jim Cemprola, managing director of institutional products for Thomson Financial, said he would like to see more buying to offset the longstanding selling trend at Solectron.

"It's a good step in the right direction," said Cemprola, who holds no position in Solectron. "But I think we need to see more consensus at these levels."

According to data from Thomson Financial, insiders have sold about \$10.4 million in Solectron stock since April.

Jonathan Moreland, director of research for Insiderinsights.com, agreed that the trend in Solectron is positive, but he isn't recommending the stock yet.

"The dollar values they are committing really pale in comparison to what insiders took out," said Moreland, who holds no position in Solectron stock.

Moreland said Solectron's business - manufacturing products for electronics companies - is "a great proxy for the economy" in general, which isn't necessarily a good thing in uncertain times.

"If you had a year, or especially a two-year horizon, you could get into Solectron and feel fine," said Moreland. "But I don't think it's going to be your last chance. ... I think people should keep this on their radar screen."

Solectron, whose 52-week high is \$16.45 a share, reached in December last year, has seen its share price suffer since announcing on Sept. 26 both that its chief executive planned to retire and that its net loss for the quarter ended Aug. 30 was \$2.65 billion, or \$3.21 a share, in line with analyst estimates. The company reported a net loss of \$250 million, or 38 cents a share, for the same period last year.

Chief Executive Koichi Nishimura, who turned 64 at the end of August, said he plans to retire by the time he turns 65, touching off speculation about his successor. The day following the after-hours announcement, the company's stock fell 12 cents to \$2.16 a share.

Nishimura was the largest single insider buyer this month, paying \$281,750 for 150,000 shares.

Kevin Whalen, Solectron's vice president of corporate communications, said company insiders are clearly confident about Solectron's future.

#### Sales Usually At Higher Prices

"Buying among our senior executives is really an expression of confidence in the company," said Whalen, "as well as the belief that the stock price at current levels is a good value."

Although Solectron's insider sales typically have been at much higher stock prices, Whalen said it was inappropriate to draw the conclusion that insiders previously lacked confidence in the company.

Whalen said sales were made by retiring officials or as part of a pre-arranged sales plan.

"Every one of those circumstances is different," he said.

Whalen said that Nishimura's pending departure won't create problems for the company. By announcing his retirement in advance, the chief executive was attempting to "make sure that people understood when he wants to end this portion of his career." Nishimura is participating in the process to select his successor, Whalen said.

Moreland said that the negative signal sent by this year's insider sales at Solectron is tempered by the fact that most insiders retain substantial stakes in the company. Director Ajay Shah, for example, sold 341,000 shares this year according to Thomson Financial's data, but continues to hold more than 6.1 million shares.

"Let's face it," said Moreland, "Ajay Shah is not running for the exits."

And while Moreland and Cemprola both question the strength of the company's insider buying, neither discounts it entirely.

"Arguably, this is a good long-term play now," said Moreland. "But I don't think you have to rush in."

-Tony Cooke; Dow Jones Corporate Filings Alert; 202-628-8905;  
tony.cooke@dowjones.com