INVESTOR'S GUIDE 2003

Following the Money

Insiders are buying up shares of these five companies. Here's why you should too.

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Solectron CEO Ko Nishimura

Ko Nishimura is anything but a showman. The chairman and CEO of Solectron, a $12 billion-a-year electronics manufacturer, drives a 1993 Honda Accord to work every day. Nishimura, who spent part of his childhood in a World War II internment camp for Japanese Americans, is humble about what he's been able to achieve. And he'd rather roam his company's plants in jeans and running shoes, pausing to quiz workers on the intricacies of baking circuitboards, than court investors. But in early October, Nishimura, 64, decided to make a grand gesture. He had just announced a quarterly loss of $2.6 billion and Solectron's stock had dropped below $2, down from $52 in the glory days of 2000. In that dark moment Nishimura reached into his own pocket and bought $281,000 worth of his company's shares.

It wasn't grandstanding: During the downturn of the past two years Nishimura has imposed a vast restructuring plan that has slashed Solectron's debt, lowered its production costs, and expanded its skills in high-margin areas like product design and after-sales service. He believes passionately that his moves will pay off handsomely when the market for tech equipment bounces back. "I wanted to express confidence in the company's future," says Nishimura. "The market simply hadn't caught on to all we'd accomplished."

It looks as if Nishimura made a smart buy. Since his first purchase on Oct. 1, Solectron's stock has almost doubled to $3.44. But Nishimura's example is more than just the beginning of a comeback story. It also contains a valuable lesson for investors: Buying by company insiders can prove an excellent guide to where individual stocks, and the market as a whole, are heading. "Insider selling gets more attention," says George Muzea, who runs a consulting service that analyzes insider trading for institutions. "But insider buying is more useful to investors."

The reason is elementary. Stock and options grants often form the bulk of compensation for today's top executives. For them, unloading wads of shares is like cashing a paycheck--it doesn't necessarily signal that they think their stock is overpriced. On the other hand, managers and directors, the people who know the business most intimately, usually buy for just one reason: They think the stock is cheap. Though they already own plenty of shares and options, they're choosing to put even more skin in the game. "They're betting their own wallets things will improve," says Jonathan Moreland of InsiderInsights.com, a website that analyzes insider buying.

Insiders are especially intriguing because they're mostly long-term investors. By law, they can't buy and flip. The SEC requires that all corporate officers and directors hold shares that have increased in value for at least six months. So they typically buy only if they're convinced the market is underestimating the fundamental strength of their businesses.

And now a new SEC rule makes insider-watching even more alluring. In the past executives could wait up to 40 days before reporting their purchases. By the time investors got the information, it was often too late--the stock had already jumped. The new rule, adopted in September, requires that executives report all purchases within two days. Sharp-eyed investors can now pounce 48 hours after the CEO makes a bet. (You can obtain up-to-date data on insider purchases on a number of free websites, including Yahoo, CBS MarketWatch, and ThomsonFN.com.)

So what do the insider numbers tell us? For the market as a whole, the consensus is that we're at or near a bottom, but that no quick rebound is in sight. Two prominent firms use different metrics to weigh the impact of insider buying on future stock prices. The Vickers Weekly Insider Report compares the total number of insider sales over an eight-week period with the total number of purchases, counting every transaction the same without regard to size. Thomson Financial, on the other hand, measures the monthly ratio of actual dollar sales to dollar purchases. Despite the difference in their approaches, both groups agree that insider buying is stronger than last year. But more than buying, they've noticed a dramatic drop in insider selling. That's a positive sign, but far less heartening than the sight of legions of CEOs volunteering to bet their own money. The trend is not nearly robust enough to call the S&P a screaming bargain, even at these prices. Says David Coleman of Vickers: "The conclusion is that the markets will take longer to recover than is historically the case."

The real opportunities for investors lie with individual stocks. In contrast to the tepid overall levels, insider buying is strong in a select group of big-cap stocks. But remember, insider buying is only a valuable first screen. Even CEOs are sometimes wrong about their companies. So check their bets by looking carefully at the fundamentals. If they're sound, you're probably wise to bet alongside the insiders.

Banking On Inside Insight

Bullish behavior by executives and board members at these companies may signal some buying opportunities.

Executive Position	Bought...	Investment	Buy price	Price now	Prospects
Gillette (G)					
Marjorie Yang Director	50,000 shares on March 31, 2002	**$1,505,000**	**$30.21**	**$30.08**	Staple products make it strong profit spinner in weak economy; customers moving up to pricey razors like the Mach3.
MeadWestvaco (MWV)					
Karen Osar CFO	2,500 shares on Sept. 30, 2002	**$48,000**	**$19.10**	**$21.53**	Big savings from recent merger should spark an exceptional increase in profits when the paper market rebounds.
Nextel (NXTL)					
William Conway Chairman	400,000 shares from	**$1,960,500**	**$3.93-$5.44**	**$13.18**	By targeting business customers and offering Direct Connect, Nextel is

	April 29 to Aug. 2, 2002				gaining share while charging premium prices.
Revlon (REV)					
Jack Stahl CEO	160,000 shares from June 3 to Aug. 12, 2001	**$739,000**	**$3.90-$5.20**	**$4.15**	A risky bet. But if Stahl's marketing blitz revives this powerful brand, the stock could soar.
Solectron (SLR)					
Ko Nishimura CEO	150,000 shares from Oct. 1 to Oct. 8, 2002	**$281,000**	**$1.60-$2.02**	**$3.44**	Successful cost-cutting campaign should produce fat margins when market for tech equipment revives.

With that in mind, we identified four companies--Nextel, Gillette, MeadWestvaco, and Solectron--that pass both hurdles: strong insider buying and good fundamentals. A fifth, Revlon, is a promising long shot. The big four and Revlon all boast extremely high ratings from Market Profile Theorems, a Seattle research firm that selects portfolios of stocks based in part on insider behavior. MPT rates stocks on a scale of one to ten (with ten as the best) using a formula that weighs a variety of factors, from purchases by directors--an excellent sign--to big shifts in the stock's traditional ratio of sales to purchases. The ratings are a good guide to future performance. For the 20 months from January 2001 to August 2002, those rated nine or ten at the beginning of the period posted average returns of around 30%, waxing the performance of the S&P 500. Right now, all five of our stocks boast ratings of nine or ten.

Nextel (NXTL, $13.18), the nation's fifth-largest wireless carrier, merits a close look mainly because of big purchases by its chairman, William Conway. Between April and August, Conway bought $1.96 million in stock at prices ranging from $3.93 to $5.44. Since then, Nextel stock has more than doubled. So is it too late to jump in? Not at all. Nextel's popular Direct Connect service enables it to charge premium prices. While rivals like T-Mobile chase retail customers, Nextel focuses on the lucrative business market. As a result, Nextel collects $70 a month from each customer, compared with the industry average of $55. It's also rapidly gaining market share from rivals such as AT&T and Cingular. "The stock's trading at 16 times next year's projected earnings," says Sean Butson, an analyst with Legg Mason. "The market still hasn't woken up to the stock's potential."

A dramatic endorsement by a prominent board member is creating a buzz around **Gillette (G, $30.08)**. On Oct. 31, Marjorie Yang, a director who is also chairman of Esquel, a Hong Kong clothing manufacturer, bought $1.5 million in shares at $30. The previous week Gillette CEO James Kilts, a favorite of Warren Buffett, whose Berkshire Hathaway is a big shareholder in the company, bought $149,000 in stock at $28. Once again the basics look solid. The world's biggest shaving-equipment company is showing strong earnings growth in a tough economy--third-quarter profits jumped 20% as customers moved up to premium, high-margin Venus and Mach3 razors. This year Gillette's stock is down about 10%, while the S&P Household & Personal Products index has gained 1.2%. The lag means that shares of Gillette still have room to surge.

The insider spotlight fell on MeadWestvaco (MWV, $21.53), the $8-billion-a-year paper packaging and chemicals giant, when no fewer than four officers bought shares in September. The numbers were modest: The biggest buyer was CFO

Karen Osar, who purchased $48,000 in shares at $19.10. But once again MeadWestvaco passes the test as a strong potential profit maker. Created in January when rivals Mead and Westvaco merged, it's suffering from the fragile economy. But let's look forward. MeadWestvaco is reaping big efficiencies from the merger. It will shed 4,000 jobs by year-end and reduce expenses by $140 million, or 2% of its total costs. And it's expanding in high-margin areas like specialty chemicals. Those improvements could make MeadWestvaco highly profitable when its markets rebound with the economy.

The riskiest bet is **Revlon (REV, $4.15)**. At first glance it looks like a dog: America's third-largest seller of mass-market cosmetics is facing big losses, stagnant sales, and until recently a dearth of fresh products. But between June and August two important insiders, CEO Jack Stahl and director Howard Gittis, partner of controlling shareholder Ronald Perelman, made big purchases. Stahl, formerly president of Coca-Cola, bought $739,000 in shares between $3.90 and $5.20. Following their lead is dicey because Revlon barely has enough cash flow to service its huge debt. But if Stahl can steer Revlon through this cash crunch, his big spending on marketing and new products like Skinlights skin-brightening makeup could pay off. BrandEconomics, a firm that calculates the market value of brands, reckons that the Revlon name is actually undervalued by $240 million. Since Revlon is now worth just $225 million, Stahl could more than double the share price by exploiting the full value of the brand.

As for **Solectron (SLR, $3.44)**, Nishimura believes fervently that sellers of everything from networking equipment to mobile phones will shed manufacturing to concentrate on what they do best: product development and marketing. Solectron should be the beneficiary, as long as its costs stay extremely low. To achieve that goal, Nishimura shuttered plants in the U.S. and opened factories in China, Malaysia, and Central Europe. He has cut the cost of inventory from 25 cents per $1 of sales to an extraordinary 16 cents. Of course, it was Nishimura's grand gesture that drew attention to his tough, behind-the-scenes spadework--more proof that some of investing's best clues come from following the inside money.