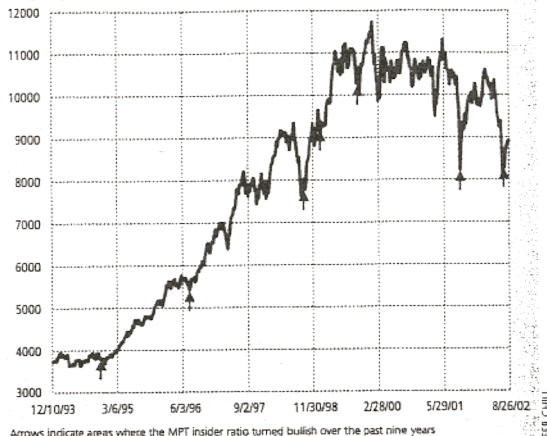


A BUYER'S GUIDE FROM THE INSIDE

Points in the Dow Jones Industrial Average at which insider model scores sent "buy" signals, 1993-2002



Arrows indicate areas where the MPT insider ratio turned bullish over the past nine years

Source: Market Profile Theorems

If insiders know best, get rrrready to rumble

Stock purchases suggest broad gains lie ahead

By Jeff Benjamin

The bear market still may be growing, but investing by corporate insiders suggests that a broad stock rally is likely over the next six months.

"Based on my calculations, stocks are a buy right now," says David Coleman, editor of Vickers Insider Trading Report, produced by Vickers Stock Research Corp. in Huntington, N.Y.

"The insiders are buying at what appears to be a rate that will precede a 30% improvement in the Dow [Jones Industrial Average] over the next year," he says.

Two other independent observers of corporate-insider trading share that view. They say current levels of buying are sending bullish signals.

The investing patterns of corporate executives are considered a key indicator of the market's direction

because insiders are believed to be most knowledgeable about the fair market value of their companies.

A buying trend by insiders is particularly telling because many executives are compensated in part with stock options. Thus, sellers typically outnumber buyers.

"I've been studying the trading patterns of corporate executives since 1972, and I've never seen a period when insiders were as aggressive in buying versus selling as they have been since July," says Michael Painchaud, director of research at Market Profile Theorems Inc. in Seattle.

Lon Gerber, director of research at Lancer Analytics/Thompson Financial in Scottsdale, Ariz., says insider-buying activity reached bullish territory in June and was even

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Insiders signaling market surge?

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more bullish in July.

Mr. Coleman says his analysis is based on trading activity by insiders at more than 8,000 companies.

BULLISH SIGNAL

Since early August, insiders have been selling at a rate that is about 30% of corporate-insider buying, according to Market Profile Theorems' most recent weekly report of activity at 2,500 companies.

In contrast, half the insider transactions in July and 67% of those in June were sells.

Anytime the percentage of sales falls below 41% of insider transactions, it is considered a signal of a more bullish market, according to Mr. Painchaud.

Mr. Painchaud recently advised institutional-class subscribers of his research to "reduce cash positions to zero" and become fully invested.

According to Vickers' Mr. Coleman, insiders over the eight-week period through Aug. 23 were trading

company stock at a ratio of 1.28 shares sold for every share purchased. For the first three weeks of August the ratio was 0.64 shares sold for every share purchased.

That is extremely bullish territory, he says, considering that 2.25 shares sold per share purchased is considered neutral. By way of comparison, consider that as recently as the end of May, the eight-week ratio was 4.18 shares sold for every share purchased.

Mr. Gerber pays more attention to the dollar value of stock purchases by insiders when evaluating ratios of buys to sells, but the findings essentially are the same.

Over the past five years on average, \$12 of insider selling has taken place for every dollar of buying, Mr. Gerber says.

Starting in June, he says, the ratio reached bullish territory. Insiders sold \$8.80 in stock for every dollar spent to buy stock. In July, the data were even more bullish at \$6.15 in sales for every dollar in buys. Lancer

has yet to calculate August data.

According to Mr. Gerber's analysis, a sale-to-purchase ratio of \$20 to \$1 is considered extremely bearish, while one of \$8 to \$1 is considered extremely bullish.

"The encouraging thing I found is that we are seeing a pickup in the

"It's really no different than trading on rumors."

— Oscar Gonzalez
Economist

John Hancock Financial Services

dollar value of stock purchases," Mr. Gerber says.

Both Lancer Analytics and Market Profile Theorems are reporting a steady increase in insider buying by executives at the larger blue-chip companies. That reflects an expansion in the technology sector beyond activity that began in June.

According to Lancer, executives at companies with market caps of at

least \$5 billion combined to purchase \$29 million worth of their own company's stock in July — the largest one-month total in two years

Mr. Painchaud says that since 1994 the broad market has seen insider-trading-based "buy" signal of the current magnitude on just seven occasions.

The average gain of the Dow Jones Industrial Average over the six months following each signal was between 15% and 20%, he says.

Recent examples of insider buying include chairman William Conway's Aug. 2 purchase of 100,000 Nextel Communications Inc. share and a 1.5-million-plus-share mid-August buying spree by four Luce Technologies Inc. insiders. Nextel is headquartered in Reston, Va. Luce is in New Providence, N.J.

On Aug. 16, chairman Henri Schacht bought 1 million shares and CEO Patricia Russo 350,000 shares of Lucent. Three days later, executive vice president Robert Holder bought 150,000 shares in the telecommunications equipment maker, an director Robert Denham purchased another 40,000 shares.

Since the mid-August insid-