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BEAR-MARKET SIGN: INSIDER SELL-RATE NEAR RECORD LEVELS

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August 24, 2003 -- When executives start unloading shares in their own companies, Wall Street is trained to worry.

Conventional wisdom holds that insider trading is a good barometer of where the market is heading. If the top dogs who are in-the-know about their companies are selling a lot more than they're buying, there must be a reason.

This is why institutional investors monitor insider trading.

Last month, executives sold about $32 worth of stock for every $1 they bought - for a sell-buy ratio of 32 - according to Thomson Financial. That's the third month in a row the sell-buy ratio has exceeded 20.

So far in August, the ratio is hovering above 30, said Kevin Schwenger, insider research analyst at Thomson. "If the ratio stays above 20 for a fourth month in a row, which seems likely, that will be something we haven't seen in a decade."

To many analysts, the heavy selling suggests the bull market is due for a swoon. The sell-buy ratio has topped 20 just 15 times in the last decade. Each time, the Standard & Poor's 500 index fell an average 6 percent in the next six months.

Over the next 12 months, the S&P 500 dropped an average 9 percent. The last time the ratio stayed above 20 three months in a row was from July to September 2000.

The S&P 500 subsequently fell nearly 20 percent over the next six months. Over the next year, it plunged nearly 30 percent.

"So it has been a pretty good predictor," Schwenger noted. "And, right now, executives are not showing a lot of confidence in this recovery that everyone is talking about."

But not all experts are convinced that insider activity points to a downturn - especially if you look at the selling case-by-case.

At semiconductor company DSP Group, CEO Eliyahu Ayalon raked in $7.5 million by exercising options to buy 477,500 shares, which he immediately sold. Does that mean DSP Group stock is about to tank? "Not at all," said Yaniv Arieli, DSP Group's head of Investor Relations.

In fact, the company announced strong earnings last month, and it just hit a 52-week high of $27.55. So why did the CEO sell?

"Just look at the stock price," Arieli said. "He hadn't exercised shares in more than three years. If there had been bad news, there would have been no exercise because it would look bad."

At software company SCO Group, insiders sold $1.3 million worth of shares - which raised eyebrows because the company is embroiled in a nasty legal dispute with IBM and others.

But SCO Group said the selling executives, who had all taken pay cuts, needed to sell shares to cover taxes from the vesting of recent share grants.

At many companies, the market rally has given executives a rare chance to sell at a profit.

"That's one explanation that isn't terribly bearish," said Paul Cherney, chief market analyst at S&P.

Still, some analysts warn that the real issue is not so much the active selling, but the lack of buying.

"The picture now is one of great hesitancy on the part of executives to take long positions in their own company shares," said Michael Pinchaud, director of research at Market Profile Theorems.

"That is troubling," he added.

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