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### What insider buying says about struggling firms

When officers snap up shares, it is a sign that they have faith in

companies. However, they could be wrong, analysts warn.

By Theresa Agovino  
Associated Press

**NEW YORK** - While skittish individual investors are largely keeping their wallets closed amid the stubborn slump in stock prices, insiders at a broad range of companies have been taking advantage of the market trough to snap up shares in their firms.

Executives from scandal-plagued companies such as biotech ImClone Systems Inc. and conglomerate Tyco International Ltd. to downtrodden technology firms such as Sun Microsystems Inc. have been picking up shares of late, helping swing insider trades toward the positive in August, according to Market Profile Theorems.

Buying by insiders outnumbered sales by 2 to 1 in the week ended Aug. 23, the most recent period for which data were available, according to the Seattle-based firm, which tracks and analyzes insider trading. That was a sharp swing from June, when selling prevailed by 67 percent; insider trades were neutral in July.

The shift to the upside is the first since early October 2001, said Michael Painchaud, research director and principal of Market Profile.

"I think you can say this is bullish," he said. "There are lots of reasons insiders sell, but only one reason they buy: They think the stock is going up."

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Analysts agree that insider buying is a positive sign, but warn against making major decisions based on that one trend. A decision to purchase a stock should include a variety of factors such as the overall economy, the company's immediate prospects, the management team, and the competition, some analysts said.

"Insider buying is important, but it isn't the be-all and end-all," said Brian G. Belski, fundamental market strategist at US Bancorp Piper Jaffray. "Sometimes, insiders are standing up to support their stock, and now is a fine time for insiders to support their stock."

More bluntly, Belski said: "Sometimes, insiders are wrong."

Consider the decision by Wilfred Corrigan, chairman and chief executive officer of LSI Logic Corp., to purchase 20,000 shares in the company he runs for \$23.69 each in January 2001. What was nearly a half-million-dollar investment has shrunk by 70 percent and is now worth about \$141,000. Corrigan was unbowed. Last month, he bought 100,000 more shares for \$7.67 each. Those buys might still prove smart if LSI regains half the ground lost since January.

Corrigan didn't respond to a request for an interview.

LSI's dive is not an anomaly. Despite some recent strength in the market, the Dow Jones industrial average is down about 14 percent this year, putting it on track for its third straight losing year. Meanwhile, the Nasdaq is off about 33 percent for 2002 and down 74 percent from its peak in March 2000.

While such fundamentals have yet to improve, Painchaud contended that his analysis indicated that the market has bottomed and that it was time to buy. He maintained that insider buying was just as valid a tool in choosing investments as more conventional methods, such as earnings and analyst recommendations.

Painchaud pointed out that recent accounting scandals illuminated how financial statements weren't always accurate, while investigations into analysts' behavior showed that their recommendations weren't necessarily objective.

"The insiders are taking money out of their own pocket and saying that, at this level, they find their companies attractive. These are people that are knowledgeable about the companies and the sector," Painchaud said.

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