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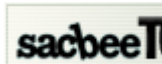
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Jack Sirard: Insiders' advice -- Sell tech stocks

By Jack Sirard -- Bee Staff Writer
Published 2:11 a.m. PDT Sunday, September 7, 2003

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Last year at the same time, investors could have snapped up all the shares they wanted in Intel at \$16 and Yahoo! at \$10.

High-tech was the big sale on Wall Street, but there were few buyers in the sector that had burned millions of investors.

A notable exception back then was Michael Painchaud of Market Profile Theorems Inc., who in an interview last summer couldn't say enough good things about the high-tech sector.

Painchaud, who closely monitors the movements of corporate insiders from his Seattle headquarters, made a big bet on tech and it's paid off handsomely. Intel is now selling for \$28 a share and Yahoo! is up to \$35.

While Painchaud certainly enjoyed the run, he's not wedded to the high-tech sector.

His advice to tech investors today?



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"Sell," he says.

"Conditions today are just the opposite of last year for technology. Relative to other sectors and relative to its past performance, technology is at the bottom of the pack for insiders."

The insider trading that he tracks is the legal kind, shares bought and sold by executives and directors of the company. From time to time, it may give a hint of what's to come in the company's performance.

Normally technology does rank near the bottom in insider trading relative to other sectors. But now it is at the very bottom.

"We've had a good run-up in stocks of as much as 40 percent or more in some tech stocks, and we don't want to risk giving back our gains," Painchaud explains.

He's built a business on tracking insider trading over the past 14 years, examining every insider transaction filed with the Securities and Exchange Commission. He ranks insider activity for each stock on a 1 to 10 scale, with 10 being the top of the bullish chart.

While Painchaud has developed a trading system that allows him to capitalize on insider actions, individual investors also can tap some of that same information.

That's because more and more investment databases provide insider trading information based on SEC filings. That can give investors an edge that they didn't have a few years ago.

Instead of looking just at the shares bought and sold, Painchaud also considers such factors as the buyer's or seller's past prescience, his or her title, and transaction size.

Last year, he gave the technology sector a 9 on a 10-point rating system, and now it gets only a 1.

Painchaud admits that a "sell" signal flies in the face of some better news on the earnings front for tech, but he notes that the record is spotty at best. Both Intel and National Semiconductor last week pointed to improved financials, but many other lesser names are not doing as well.

Painchaud, who uses a variety of market measurements, says that insider selling in tech historically runs in the opposite direction of the behavior of professional investors, newsletter writers and individual investors.

"Right now, those groups are all buying tech, so that confirms our beliefs that

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now is a good time to sell," he says.

With that strategy in mind, Painchaud says that investors need to go on the defensive with their tech stocks, in particular, and with many of their other holdings as well.

Based on insider trading, two areas that he says look good currently for investors are the major pharmaceuticals and utilities, where there have been some positive insider buying.

"Both pharmaceuticals and the utilities offer better-than-average returns with their dividends, and that kind of intrigues us," Painchaud says.

The drug stocks, he says, had been in a downturn for some time, but "now they've turned to neutral to positive, stocks like Merck and Abbott Labs."

Two utilities that show up on his insider "buy" list are DQE Inc. the energy services holding company for Duquesne Light Co. and Texas Utilities. Both have shown improvement in insider buying.

He's also put McDonald's on the "buy" list. "It's a company," he says "that has seen some insider buying, and its earnings model is looking better."

But overall, Painchaud says, the market does not look good. It has exorbitant risk and has really gotten ahead of itself. Stocks are not showing the degree of growth necessary to support such high price/earnings ratios as we now have, he says.

Painchaud says future economic growth will be hurt by rising interest rates and inflation, which could short-circuit any economic recovery.

About the Writer

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