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Insiders Are Increasingly Hamstrung

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If insider behavior is any guide, investors might be well-advised to take a cautious approach to stocks now.



In the past month or so, corporate chiefs have pretty much had a hands-off approach to equities, waiting to see what will happen before making any drastic moves. Although the proportion of selling to buying has increased, insider trading activity as a whole has been reduced to a trickle on both sides. Analysts say this shows executives are unsure about where stocks are going.

"Insiders are just not seeing any catalysts that the market will continue to recover. They are hesitant to commit to any strategy," said Kevin Schwenger, insider research analyst at Thomson Financial.

In April, ahead of the latest upturn in stocks, insider selling was up 40% at \$1.4 billion, but still at half of its five-year average. Buying fell 40% to \$70 million, or one-third of its five-year monthly average of \$182 million, according to Thomson Financial.

As the markets entered May on a high note, selling began to pick up more momentum in a few sectors, as noted by Michael Painchaud, director of research and principal of Market Profile Theorems. "The peak has happened and now insiders are selling into it," he said.

Homebuilders Selling

Painchaud is referring specifically to sectors such as homebuilding, which had a run-up going into May and a healthy performance so far this year. "Wall Street has latched onto it," he says, "but insiders are not believing. They are selling."

One example is **Beazer Homes** (BZH:NYSE - news - commentary), whose top executives sold a total of 82,655 shares on May 5, with the largest sales coming from Chairman Brian C. Beazer and CFO David S. Weiss. The total sale is equivalent to almost 10% of all the shares of the company held by insiders.

Painchaud also mentioned **Pulte Homes** (PHM:NYSE - news - commentary) and **Hovnanian Enterprises** (HOV:NYSE - news - commentary) as two other homebuilding companies that have seen increased insider selling of late.

Schwenger, at Thomson Financial, says there is a hodge-podge of sectors being represented in negative insider activity. **International Game Technology** (IGT:NYSE - news - commentary), the world's largest maker of slot machines, has seen increased action, with some 12% of shares held by insiders being sold in recent weeks. Schwenger also cited **Yahoo!** (YHOO:Nasdaq - news - commentary), **Cendant** (CD:NYSE - news - commentary) and **Walgreen** (WAG:NYSE - news - commentary), among others that saw insider sales.

This scattered selling does not bode well for future confidence. "For the first time since last summer, we are bearish on the market overall," said Painchaud.

Schwenger thinks sentiment is relatively neutral, but "the very light volume in insider trading has signaled executives are not confident a rebound will actually consolidate."

Bright Spot

But not all is gloom. A few bright spots can still be found in the market, with buying interest among insiders indicating a handful of stocks are still cheap and have upside potential.

The defense and railroad industries are among the sectors that have seen more positive insider activity lately. "Rather than buying Treasury bills, insiders are buying their own stock, and this is giving me hope," said Painchaud. He also noted prices in the sector have had a tendency to fall recently, which could lead to more buying interest in the near future. A few names in the industry include **Northrop Grumman** (NOC:NYSE - news - commentary) and **Raytheon** (RTN:NYSE - news - commentary) , according to Painchaud.

Schwenger mentioned a few names in the health care sector that have also seen buying activity. They include **Cerner** (CERN:Nasdaq - news - commentary) , **Pharmaceutical Product Development** (PPDI:Nasdaq - news - commentary) and **IVAX** (IVX:NYSE - news - commentary) .

"Right now, I would say investors would be wise to avoid certain areas which have had a tremendous run-up and personally give me some trepidation. But they should look deeper into areas in which insider buying has cautiously increased," said Painchaud.
