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Insiders' stock-selling spree ominous

By Adam Shell and Matt Krantz, USA TODAY

Just when the average investor may be thinking of getting back into the stock market, many company insiders are getting out.

Statistics gleaned from three firms that track legal insider buying and selling show a sharp rise in insider selling at a time when Wall Street is experiencing its best run since last fall.

Even though the Standard & Poor's 500 index is up 20.2% from its Oct. 9 bear market low after closing at nearly its highest level of the year Friday, roughly seven out of every 10 recent insider transactions were "sell" orders, according to Market Profile Theorems.

The cautious outlook of top executives about their business prospects is in sharp contrast to the budding optimism now prevalent on Wall Street. It is also far different than the bullish behavior exhibited by insiders who went on a well-timed buying binge late last summer and mid-October when stocks were trading at multiyear lows, says Michael Painchaud, research director and principal at MPT.

Insiders' decision to sell could signal that the current rally may be running out of steam. It also suggests insiders may think the market no longer offers good value after its sharp run-up. "Insiders are flashing a caution signal," Painchaud says.

Other warning flags:

- **Sellers unite.** In April, there were 31.5% more companies with insiders filing sales than purchases, InsiderInsights.com says. "Why are investors acting so curmudgeonly? Because they're sure that this rally is not going to last," says the firm's director of research, Jonathan Moreland.
- **Buyers disappear.** Only 664 companies had insiders who filed to buy shares in April, the smallest number since InsiderInsights began gathering the data in the mid-1990s.

In addition, insider buying plummeted 40% from March to \$70 million, says Lon Gerber, director of insider research at Thomson Financial. Insider buying has fallen below \$100 million only three times since 1998. "I keep looking and waiting to see people stepping in (to buy), but there's no sign of it," Gerber says.

Just because insiders are selling stock doesn't necessarily mean that the current rally will crater. Still, even though his indicators have not flashed a bearish signal, Painchaud has been advising his clients to sell into strength. "Insiders will no longer provide a tailwind to higher equity prices," Painchaud says.

While insider-trading statistics aren't the only clue to figuring out where stock prices are headed next, it is a useful tool that has spotted market turns in the past, says money manager Gary Kaltbaum. "It's a gauge that must be watched," he says.

