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Lack of Insider Stock Purchases Sends a Warning to the Market

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WASHINGTON—The message that insiders are sending to the market can be summarized in one word: Sell.

The sustained drought in insider buying versus selling that began three months ago has been matched only once in the past 10 years, according to data from Thomson Financial.

That occasion—July through September 2000—preceded a 19% drop in the market in the ensuing six-month period and a 28% drop in the following year, said Lon Gerber, director of insider research for Thomson Financial.

“It just so happened that was the worst 12-month performance in the decade,” Mr. Gerber said.

Mr. Gerber’s measure of insider sentiment compares the dollar value of purchases to the dollar value of sales. Last month, that ratio stood at \$32 of sales for every dollar of purchases, the third consecutive month in which the ratio topped the 20-to-1 measure that Mr. Gerber considers a sell signal.

Mr. Gerber said a dearth of purchases, rather than a glut of sales, has driven that ratio higher in recent months. He said he suspects market values have gotten ahead of earnings results, making insiders reluctant to add to their holdings.

“Executives right now are not willing to buy ... until they see more earnings visibility,” Mr. Gerber said.

Michael Painchaud, research director for Market Profile Theorems, tracks insider transactions by their number, rather than their dollar value, but reaches conclusions similar to Mr. Gerber’s.

“We don’t think it’s an accident that the markets have been moving sideways,” said Mr. Painchaud. Insiders, he said, “tend to be very good predictors of value.”

Other trackers of insider data are similarly gloomy about the stock market’s prospects. David Coleman, editor of *Vickers Weekly Insider Report*, has moved his model portfolios out of the market entirely, and Jonathan Moreland, research director for the weekly newsletter *InsiderInsights*, recently took positions in funds that are betting on a drop in technology stocks.

Mr. Gerber said that in the past 10 years, there have been 14 months in which the Thomson Financial ratio exceeded 20-to-1. On 11 of those occasions, the stock market was lower six months later, he said.

“Is it guaranteed to happen again? Not necessarily, but it is an area of concern,” he said.

Mr. Painchaud said that although there have been limited signs of improvement in insider sentiment in the past week, he remains wary.

“We won’t begin to turn bullish on the market until the insiders turn bullish,” he said. “We’re waiting. They’ll tell us.”



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