

# STRATEGIC RESEARCH

## Insider Buying and Selling – A Corporate Guide

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### *Executive Summary*

#### Overview

In recent years the growing focus on executive compensation and corporate governance issues has caused insider transaction data to receive increased scrutiny. Now not only do retail and institutional investors analyze insider transaction data to gain insight into the future direction of a given company and its underlying stock. They also want to know whether that executive's transaction might be a better indicator of future stock price movement than others.

In addition IROs have become increasingly interested in how insider data is being analyzed and perceived. This is because the investor relations function is charged with helping establish fair and equitable insider trading policies, and because it is responsible for communicating the details of those trades to the investment community.

In an effort to determine whether or not certain insider transactions are indeed a harbinger of future stock price performance, Thomson Financial analyzed forty public companies between the years of 2004 and 2006. An analysis was done to try to determine if insiders at tightly held companies, where management owns a large percentage of stock, were a better indicator of stock price performance than insiders at companies that have a comparatively low percentage of ownership. Several extrapolations of the data presented are made, as are specific recommendations for analyzing insider data. Lastly, tips and takeaways for both the IRO and the individual investor are included.

#### Key Findings

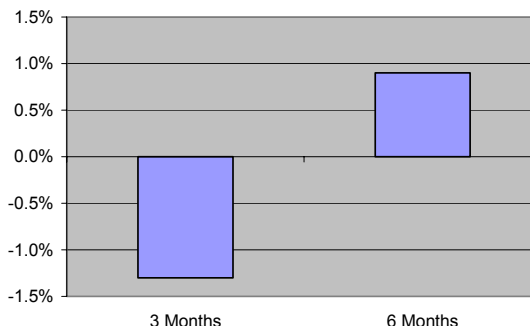
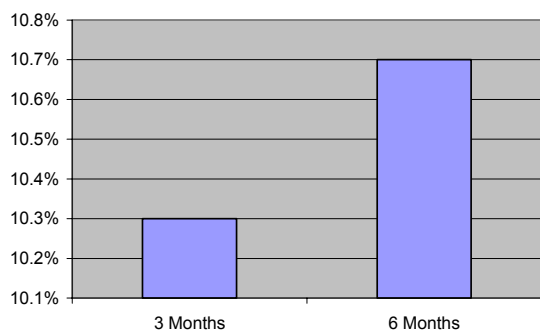
Thomson Financial analyzed insider transactions at companies with greater than 10% insider ownership, and those with less than 10% ownership in an effort to isolate discernable patterns and to determine if a particular insider is a better predictor of future stock price activity than others.

Key findings include:

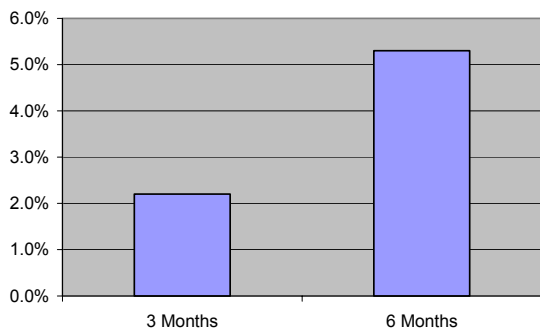
- Insider transactions, both purchases and sales, at tightly held companies (defined by us as having 10% or more insider ownership) are a solid indicator of future stock price performance.

- Insider transactions, both purchases and sales, at tightly held companies are a better indicator of future stock price performance than transactions that took place at companies that have comparatively low insider ownership. In fact, stocks purchased by insiders at tightly held companies increased by a greater percentage than those at non-tightly held companies at both three and six month intervals. In addition, stocks sold by insiders at tightly held companies declined by a greater percentage than those at non-tightly held companies at both three and six month intervals. (See charts below)

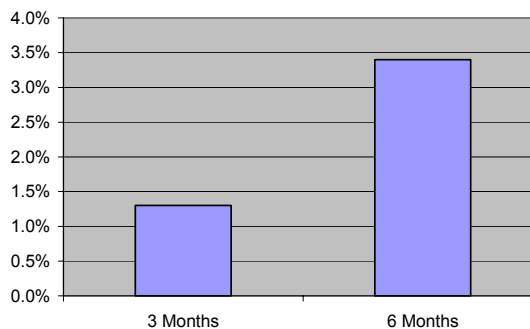
**Tightly Held Co's: Performance After Purchase    Tightly Held Co's: Performance After Sale**



**Non-Tight Co's: Performance After Purchase**



**Non-Tight Co's: Performance After Sale**



- Senior officers tend to have a better "feel" for their companies, and, as evidenced in the data provided, for the future price of the shares. Directors appear to have less of a "feel."

IRO Takeaways:

- IROs should encourage investors to look at insider transactions against the backdrop of a much larger investment context.
- Integrity is key. To that end, the establishment of 10b5-1 plans, blackout periods, and trading windows is vital.
- Publicly disseminating/discussing insider transactions can quell rumors and improve shareholder relations.

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