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STOCK SECTORS

What Are Insiders Buying Now?

You'll never believe it. They're most bullish in that most beaten-down sector: tech.

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By Melanie Shanley

Like it or not, insiders know more than you--and they know it sooner. That knowledge came in handy three years ago as stocks approached their peak. Company executives were selling, and investors were left holding the bag. Now insiders have done an about-face and are piling into the market in some surprising areas. The question is, Should you follow their lead?

According to Market Profile Theorems, a research company based in Seattle, the answer is yes. MPT, which has been tracking insider buying and selling for hedge and mutual funds since early 1993, has found insiders to be above-average stock pickers. When MPT's Insider Model rating has registered a buy signal in individual stocks over the past nine years, those shares have risen 15%, on average, over the following two to six months. That compares with a 6.5% average gain for the Dow.

Not all insiders are financial geniuses, though, so MPT looks at trades on a company basis as well. Each stock (and sector) is assigned a score from 1 to 10, with anything over 5 rating as a buy. Telling a smart trade from a misleading one depends on a bundle of weighted factors--the seniority of the insider within the company, his record for accuracy, and the size of the trade, for instance. MPT also adjusts for things like mandatory purchases by new board members and whether the insider pool has shrunk or grown. One rule of thumb is that buys get more weight than sells. While execs sell for lots of reasons--to buy a house or simply to diversify their holdings--they generally buy for one reason: They think the stock is cheap.

So what are insiders bullish about now? The signs point to one hard-to-swallow sector--technology. In grim areas like telecom, semiconductors, and software, insiders are buying with such fervor that the tech sector has recently scored a perfect 10, a rating never before seen in that space. "The nature of the change, the degree of the change within the technology sector, is compelling," says MPT co-founder Michael Painchaud.

Indeed, the feeling seems to be most positive at some of the biggest--and most beaten down--names in the tech world. Take Intel. Despite a steady stream of negative news for chipmakers, the company's MPT score jumped dramatically, from 2.5 to 6, in August. Microsoft routinely posts low scores because of regular selling by Bill Gates and Paul Allen. But lately the stock's rating has jumped from its average range, 1 to 3, all the way up to 8, driven by buying from insiders like board member and Merck CEO Raymond Gilmartin.

Perhaps the most shocking buy signal comes from universally trashed telecom equipment maker Lucent. After never previously registering as a buy, the stock's insider rating recently rocketed to 10. This summer everyone from division

managers to chairman Henry Schacht has been snapping up the stock. With the shares languishing at less than \$2, more than 97% off its high, it might seem like a stock only insiders could love. But given their track record, that might be just what you're looking for.

Betting On Themselves

Text

Stock	Price	MPT score*	Comment
General Dynamics GD	\$77	9	Board member Lester Crown, the largest shareholder, is buying--he's known to have impeccable timing.
Intel INTC	\$16	6	After a decade of regular selling (488 sales out of 498 insider transactions), insiders are now holding on to stock.
Lucent LU	\$2	10	Chairman Henry Schacht. CEO Patricia Russo. CFO Frank D'Amelio. Everybody's buying at Lucent.
Microsoft MSFT	\$48	8	Usually ranks low because of routine selling by Bill Gates and Paul Allen, but score shot up to historic high recently.
Motorola MOT	\$12	8	Former P&G CEO John Pepper, a director, has been leading a buying charge since the stock hit \$15 in May.

*Scores range from 1 to 10. Over 5 signals a buy.

Source: Market Profile Theorems

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