

# Even at a Markdown, Fred's Insiders Are Selling

## Sales Suggest Share Price Is Likely to Fall Further; Company Cites Options

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Dow Jones Newswires

WASHINGTON—Insiders at retail companies sold a lot of stock in November ahead of disappointing early holiday-season sales, but executives at general-merchandise retailer Fred's Inc. sold stock even after the company's shares were marked down.

That's not a good sign, according to analysts of insider filings.



### INSIDE TRACK

"The fact that insiders are selling even though the stock price is dropping suggests that insiders expect further price drops, and they are not worried about selling at a low price," said University of

Michigan finance Prof. H. Nejat Seyhun. "Typically, these sales are further followed by additional price drops."

Fred's Chief Financial Officer Jerry A. Shore said the sellers were mostly motivated by the desire to exercise options before those options expire in March. The company allows insiders to sell stock only during limited periods, he said, and the recent sales took place when they did because it was the last opportunity before March for executives to sell shares from those options.

"The large majority of it was the options exercises for those whose options are expiring," said Mr. Shore.

Insiders at the Memphis-based retailer sold 75,627 shares in the final week of November for a total of nearly \$1.4 million, or \$18.32 a share, after paying

nearly \$400,000 to exercise options. According to Securities and Exchange Commission filings, 40,968 of those shares were acquired upon the exercise of options that were set to expire in March. An additional 12,690 options had expiration dates in 2006 or later, and the remaining 21,969 shares were sold without an accompanying option exercise.

Mr. Shore said that although some insiders sold stock, others with options about to expire didn't do so. He said that between now and March, Fred's insiders will be exercising options without selling the stock they acquire. "There's a much, much larger number who still have the unexercised options who will at some point exercise and hold those," he said.

One of November's sellers, company Vice President Garry McFerrin, sold only 5,000 shares after exercising options to acquire more than 11,000 shares.

The first of the recent sales by Fred's insiders took place Nov. 26 at an average price of \$19.25 a share, but Fred's stock dropped quickly after those sales. Other insiders continued to sell at prices as low as \$17.31. Fred's shares traded yesterday at \$16.69, down 70 cents, in 4 p.m. Nasdaq Stock Market composite trading.

"Insiders in general tend to behave as value investors," said Michael Painchaud, research director for Market Profile Theorems. "To see continued selling on the part of insiders after a drop in price, I could only assume that the stock has not yet reached an attractive valuation level."

Kevin Schwenger, insider research analyst for Thomson Financial, said that the Fred's sales took place in a month of high insider sales in the market overall,

and also in the retail-goods sector. According to Thomson's data, retail insiders sold nearly \$627 million of stock in November, by far the largest amount of monthly sales in the past five years. The second-largest month in that period was \$417 million in August 2003.

Mr. Painchaud said that, according to his data, it's a good idea for investors to be wary of Fred's, retailers, consumer cyclical companies and, well, most other companies, too. Utilities and consumer nondurables, he said, are the sectors most likely to "weather what we are expecting will be a rather tough storm for the equities markets."

## CD Yields Increased In Most Recent Week

NEW YORK—Yields on certificates of deposit were higher in the latest week. The average yield on six-month "jumbo" CDs, which typically require deposits of \$95,000 or more, was 1.75%, up from 1.71% a week earlier, according to Bankrate.com. The yield on five-year jumbos was 3.71%, up from 3.69% the previous week, the information service said.

The average yields on small-denomination "savings" CDs were higher. The average six-month yield was 1.54%, up from 1.50%, Bankrate.com said. The average two-year CD yield was 2.58%, up from 2.54%, and the average five-year yield was 3.59%, up from 3.58% the previous week.

## Insider Trading Spotlight

### Biggest Individual Trades

(Based on reports received by Thomson Financial on December 6)

COMPANY NAME	INSIDER'S NAME	\$ VALUE	NO. OF SHRS IN TRANS	RANGE OF SHR	TRANS
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