8/16/2011 8:07 PM ET | By Michael Brush, MSN Money

6 stocks insiders are snapping up

While recent volatility sparked panic selling, those in the know were buying. Among the names insiders thought were bargains: Morgan Stanley, Hasbro and Berkshire Hathaway.

Good news: Stocks are stabilizing.

But is this just the eye of the storm, or was the frightful first fortnight of August merely a bull market correction that's almost over? The question is critical, because the latter would mean it's a good time to snap up bargains in the market.

I'm definitely in the "almost over" camp for a simple reason: Corporate insiders -- the guys and gals with the front-row seats on the economy -- are back in the market in a huge way.

"There's been a dramatic shift towards buying," says Richard Uhl, a research analyst with Thomson Reuters. Insiders have been snapping up so much stock, he says, they're now as bullish as they were during those bleak moments in February and March of 2009 -- when the market was bottoming after another monster sell-off.

That's a sign that those buying stocks in the wake of the pullback are right -- and in case you want to join in, I'll name several blue-chip plays that insiders are buying later in this column. First, let's take a deeper look at what the insiders are telling us about the road ahead.

TICKERS IN THIS ARTICLE

NAME	LAST	CHNG	% CHNG
JPM	43.15	+0.30	+0.71

NAME	LAST	CHNG	% CHNG
MS	17.22	+0.24	+1.38
BURFX	10.08	-0.03	-0.30
BRK.A	119,105.11	+811.11	+0.69
BRK.B	79.46	+0.66	+0.84

Insiders chasing profits

Of course, the big fear among investors is that the economy is now flying at stall speed. Many pundits think job growth is so low that consumers will cut back on spending. Companies will see demand drop and cut jobs, leading to a vicious cycle that sends the economy into a tailspin. Goldman Sachs economist Jan Hatzius just raised his odds for a U.S. recession to 1 in 3.

bing
Is insider buying a bullish signal?

But the insiders' voluminous buying says that isn't in the cards. "As the markets crashed, insiders were just seizing the opportunity to snap up shares," says David Coleman of Vickers Weekly Insider, published by Argus Research. "The fundamental reason they are buying is they think those shares are undervalued." In other words, stocks look cheap compared with expected profits, because the dire recession scenario isn't going to play out.

Michael Brush

At least some Wall Street analysts agree. "The current S&P 500 market price is implying a reduction in earnings that we find unlikely," Barclays strategist Barry Knapp wrote Monday morning. "We believe the macro outlook is stabilizing."

But what about the other big fear, that European banks will blow up because of exposure to the debt of over-borrowed countries, like Greece and Italy? I'll take the big insider purchases by top execs at **JPMorgan Chase** (JPM +0.71%, news) ($6.8 million) and **Morgan Stanley** (MS +1.38%, news) ($3.8 million), not to mention lots of regional U.S. banks, to mean that those fears are overdone.

Individuals to insiders

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The doomsday scenario is that European banks will blow up in a "Lehman moment," which would seriously harm U.S. banks because the global

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MARKET UPDATE

US | INTERNATIONAL

NAME	LAST	CHANGE	% CHANGE
DOW	13,010.65	+83.48	+0.65

NAME	LAST	CHANGE	% CHANGE
NASDAQ	2,960.37	-10.08	-0.34
S&P	1,371.30	+4.36	+0.32
Russell 2000	797.38	+5.53	+0.70
10 Yr Note	100.38	-0.19	-0.19

[BRIEFING.COM] The broad market has entered into a sideways drift that has left it holding on to a solid gain of about 0.5%. Its largest sector, Tech, continues to slog along with a modest loss, but Financials and Energy, up 1.1% and 0.9%, respectively, have been sources of strength. ... More

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financial world is so interconnected. But U.S. bank insiders are saying it's not going to happen. "We see some signs that policymakers in Europe are having a degree of success," agrees Knapp.

For those who want some hard numbers on the insiders' buying overall, here's my summary of the big-picture data provided by Thomson Reuters.

For just the first third of August (through Aug. 10), insider buying jumped to $112.6 million, more than the average monthly buying of $104 million during 2010 and through the end of July of this year. Meanwhile, insider selling for the first 10 days of August fell to $546 million, well below the average of $876 million for a third of a month during 2010 and 2011 through July. The result: The Thomson Reuters sell-buy ratio fell to 4.85 (lower is bullish) in early August, a level not seen since the bear market lows of February and March 2009. In those months, the sell-buy ratio stood at 5.1 and 3.9, respectively, and marked a buying opportunity.

Of course, insiders are known to buy for the long term, which means they often buy in a little early. Their purchases don't call the exact bottom of the market; no one can do that. You should be aware that Michael Painchaud, of Market Profile Theorems, who has made a few good market-timing calls lately, thinks stocks could fall back again and test the recent bottom. But there's no doubt that insiders seem bullish and are buying with a ferocity last seen during the last market bottom.

Here are some well-known, large-cap, brand-name companies where insiders were recently snapping up shares. Most of these also pay decent dividends. So if the insiders were early, at least you'll get paid to wait.

Morgan Stanley

Until recently, there had been nothing but selling by Morgan Stanley insiders -- even as the stock slid precipitously this year from highs around $31 in February to $22 to $23 range by June. But when the stock broke through $21 in the August swoon, the selling stopped and the floodgates of insider buying opened. On Aug. 4, CEO James Gorman bought 100,000 shares for a little over $2 million. Other execs, including CFO Ruth Porat, bought more than $1.6 million worth.

All the buying happened between about $20 and $20.62. Now the stock is even lower, at around $17.50. Does this mean that insiders are stupid and you should not follow them? No, it just means that these insiders did what insiders normally do: They bought early. The sheer size of the buys here, and the reversal from years of selling dating back through 2008 (excluding one purchase in January 2010), add up to a strong bullish signal.

Morgan Stanley gets lots of revenue from asset management and investment banking, or assisting with stock, debt and initial public offerings. Investors fear this business will dry up in a recession and bear market. But through their massive purchases, insiders are saying relax -- the threat isn't that serious. Anton Schutz, manager of the **Burnham Financial Industries Fund** (BURFX -0.30%, news) agrees that Morgan Stanley stock looks "incredibly cheap."

Berkshire Hathaway

By early August, the "A shares" of **Berkshire Hathaway** (BRK.A +0.69%, news) had fallen almost 24% to $100,265 from $131,463 in late February. In the selloff, a director put more than $800,000 into the stock at $105,416 a share. This confirmed what a lot of Warren Buffett investors and fans, including myself, have been saying recently: Buffett's stock looks too darn cheap.

Berkshire's reported book value at the end of the second quarter was $98,716, which means that the stock currently sells for about 1.09 times book value. Berkshire stock historically trades for about 1.7 times book value, as a mean, and the current level is about as cheap as Berkshire has gotten in past decade, says Barclays analyst Jay Gelb.

He has an "overweight" rating on the more affordable "B" shares of **Berkshire Hathaway** (BRK.B +0.84%, news) which recently sold for around $71.90. Gelb's 12-month price target is $85. But if the stock returns to its average price-to-book value of 1.4 since the 2008 financial crisis, the stock will go to $100.

Berkshire shares have been hit because its reinsurance business, which provides insurance for insurance companies, has been hurt by a slew of natural disasters around the globe. Plus Berkshire Hathaway has big exposure to financial-sector stocks, which are down a lot in this pullback. The insider buying affirms these will turn out to be just temporary issues. (For a look at other stocks you get exposure to when you buy this one, read "Buffett's 7 best stocks today.")

Continued: 4 more insider favorites

Single page

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NAME	LAST	CHANGE	% CHANGE
Euro/Dollar	1.32031	+0.00417	+0.32
Pound/Dollar	1.61447	+0.00130	+0.08
Dollar/Yen	81.36697	+0.19697	+0.24

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ARNIE schine (attckdg) Jan 2, 2012 4:34PM

READING THE RESPONSES, ONE CAN, ONLY CONCLUDE THAT WE AMERICANS ARE STUPID, UNEDUCATED AND LAZY. WE TREAT POLITICS AS A JOKE. WE LEARN ABOUT HOW POLITICIANS ARE RAPEING THE COUNTRY AND GETTING RICH. RESPONSES ON TWITTER, FACEBOOK ETC SHOWS IDIOTS SUPPORTING THESE LYING CHEATS WITH THE MOST UNBELIEVEABLE COMMENTS PRAISING THESE RIPOFF ARTISTS. WAKE UP AMERICA

3 0

Average Joe American - Tampa FL Aug 20, 2011 9:03PM

The saddest aspect of this whole story further underscores what's wrong with this country. Those most responsible for our economic and political woes are the same scoundrels benefiting from that same turmoil. Wall street and D.C.'s on the take henchmen have been so insidiously intertwined for so long that when the roof began to cave in, everyone started scrambling to save their own hides.

The major financial and brokerage firms, institutional and elite individual investors, hedge fund mangers, et al lost control of the profit train, and now the regulators and investigators are forced to do their jobs. Well ladies and gentlemen, roll up your sleeves and don your protective gear, because you have a toxic mess to clean up. And you can start with cleaning your own houses.

More

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rousseauSC Aug 20, 2011 8:43PM

Ron Paul is the only candidate telling the whole truth. (Herman Cain is the most educated fiscally, but he cannot be the most frank and continue his candidacy.)

The Fed is taking care of their Goldman Sucs buddies and screwing the public. "Wage inflation" is the solution, not the problem, unless you are a parasite on the Federal Reserve, a hedge f\und prostitute or a big busn. feudal lord. Exile the Sheriff of Nottingham who occupies 1600 Pennsylvania

Avenue and all his minions (Dems & Repubs) on Capitol Hill.

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rousseauSC Aug 20, 2011 8:34PM

Really? Stabilizing? Because we failed to address the extravagant govt spending, my ultra-shorts have gone up 30% in the last few weeks. Happy days are here again?

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disgusted31 Aug 20, 2011 6:32AM

what happened to that 05% gain ?

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Offthedole Aug 20, 2011 3:08AM

This article is DREADFULLY PATHETIC in its desperate tone to riegn in anyone with money to keep the feeding of their casino alive....sheesh!

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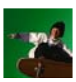
Conceptsratease Aug 20, 2011 2:43AM

Buy hookers and booze. The only two investments with a guarenteed solid return.

9 0

James Mahoney Aug 17, 2011 4:31PM



We are in a long term deflationary period ala the 1930's. In that time retail investors went away for 20 years.

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nutster Aug 17, 2011 3:33PM

someone just said wells fargo classified gold in a bubble status.

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worley52 Aug 17, 2011 3:30PM

Just finished the Rolling Stone article. Why is the SEC not being brought to justice?

9 0

Crying Tree Aug 17, 2011 3:26PM

The spring correction did not appear this year. Stay ready as you never know what will stampede the sheep. October has also been good at times for on sale - stock.

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nutster Aug 17, 2011 3:17PM

buy gold make it go up please, i need the money before the bubble burst.

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nutster Aug 17, 2011 3:05PM

They tell me to hold onto what i have and ride it out. They are the short stockers at wall street who will sell in a heartbeat, but tell us to hold on and ride it out while they get our money.

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electric car fan Aug 17, 2011 7:12AM

the market like the rest of america will always correct to the current conditions right now anything over8500 is a rip off and since we are headed into a oil caused depression what would be a proper value then 4200? just keep the rules on speculating oil in place and watch your precious market crash and burn. you can only rip off the people if they have some funds to rip off

10 20

Final Word Aug 17, 2011 6:48AM

As stated earlier, three simple ways to react to stocks plunge: 1. Hold and do not react to it. 2. Do not move portfolio holdings while market is down. 3. Readjust holdings when stocks are functioning with less or no volatility.

To do otherwise would be giving stock gamers openings to cash in.

18 4

randall (randy47) Aug 17, 2011 6:35AM

Wall street is in the rear view mirror!!!

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Rhinodaddy Aug 16, 2011 11:46PM

It looks to me like somebody is dropping the ball with Berkshire. The second from the last paragraph says analyst Jay Gelb is calling B shares overweighted (he's really fighting upstream on this call, BTW). Even if I agreed (I don't) the implication is B shares are overweight, but A shares are not. That's the way I read it, anyway. That would be rediculous since A shares are deliberately tagged at a value of 1500 B shares. If there truly was disparity between the two, there would be a terrific opportunity for arbitrage.

That would have been some article.

3 4

E Frost Aug 16, 2011 10:47PM

No one, not even executives, know if the stock market is going to rise or fall next week. They do, however, know if their company's stock is undervalued or not.

The high rate of insider buying shows that they believe their company's shares are undervalued and worth buying; the short-term behavior of the stock market doesn't even matter - and real professionals don't even try to guess it. That's why executives can buy stock but still say "there could be another crash" at the same time; this is not a contradiction in their thinking.

Google "frost finance culling the sheep" for more on this...

More

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mikcra Aug 16, 2011 9:21PM

I concur that market timing and bottom picking is a hopeless exercise, but this author seems to doubt his own conviction, in the very next sentence!!!

"Their purchases don't call the exact bottom of the market; no one can do that. You should be aware that Michael Painchaud, of Market Profile Theorems, who has made a few good market-timing calls lately, thinks stocks could fall back again and test the recent bottom."

Why should we be aware Painchaud's latest opinion, you just claimed that 'no one can do that'!!

Geez, re-read your work before hitting 'Submit', please!

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