Where to Keep Tabs on Insider Buying and Selling of Stock

By MIKE HOGAN
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In today’s tippy-toppy market, with so many contradictory news signals, are there any indicators on which investors can rely? How about share purchases by company executives who put their own money where their earnings calls are?

As former Fidelity Investments star Peter Lynch once observed, “Insiders might sell their shares for any number of reasons, but they buy them for only one: They think the price will rise.”

Several academic studies support Lynch’s conclusion that stock prices get a lift from insiders accumulating shares on the open market. The insider anomaly advantage has been estimated to be as much as 11 percentage points over the market return annually. But your personal mileage can vary a lot, warns Ian Dogan, founder of Insider Monkey. The advantage tops out closer to seven percentage points, says Dogan, who wrote his doctoral dissertation on insider trading.

The many variables involved are explained in detail on his site and others, such as SEC Form 4 (secform4.com) and J3SG, by J3 Services Group (j3sg.com). Would-be insider followers can find up-to-date tables of who’s buying, who’s selling, profiles of companies in play, and a variety of screening tools for uncovering follow-on opportunities. (Barron’s research uses Insiderscore.com, which works mostly for institutional investors, and Insiderinsights.com).

The Securities and Exchange Commission defines insiders as a company’s principal officers and directors, but also beneficial owners of more than 10% of corporate shares. That can easily add up to two dozen job titles, including executive support staff, all of whom must report their trades on SEC Form 4 within 48 hours.

Of course, anyone can log into the SEC’s Edgar database (sec.gov/info/edgar.shtml) and collect that data free. But, notes Insider Monkey editor Meena Krishnamsetty, it’s heavy lifting sorting through as many as 200,000 new trades annually. Better to let sites like hers rummage through the haystack and parse the data for you. The three data miners we looked at for this column collect insider-trade data in real time, organize it, and call out positive signs to look for—and what to watch out for.

INSIDER INVESTING ISN’T as simple as following the random executive into shares. While insiders in the aggregate have beaten the market overall for the past 50 years, they underperformed in 1996, 1997, 1998, and 2008. Even in good years, an insider-related price bump can depend on the number and type of buyers, purchase volume, and other factors unique to individual companies. “The first thing to look for is multiple insiders buying around the same time,” advises Dogan. “One insider might overestimate a company’s prospects, but there is higher certainty when many insiders are buying.”

Recently, Dogan’s site reported “notable buying” at pharmaceutical company Mallinckrodt (ticker: MNK), whose shares were dragged down in November by disclosures about the high prices of some of its drugs. At last count, eight Mallinckrodt insiders purchased significant numbers of shares during November and early December, some of them multiple purchases. So-called consensus or cluster buying explains more than half of...
the abnormal returns realized by insider trades, asserts Dogan: “That’s the most important factor, followed by the size of purchases—basically, the bigger the better.”

Another important question: How inside is the insider? “Top executives are the most informed, followed by officers and directors, with large shareholders the least informed as measured by their investment returns,” says a tutorial on the Website of another round-the-clock monitor, SEC Form 4. C-levels, executives whose job title begins with “chief,” typically have operational responsibility and, therefore, the greatest knowledge of a company’s key leverage points, performance trajectory, and material events like a new contract or upcoming product release.

SEC Form 4 curates data in far more ways and offers up many more predefined lists than Insider Monkey does. But very little of its information is free. A subscription, which starts at $40 a month, is needed to see any real data. SEC Form 4’s screener offers more search variety than Insider Monkey and more preset screens like “significant insider buys.” The resulting tables can be sorted backward and forward by clicking on a column heading.

The third site, J3SG, also slices and dices Form 4s in more ways than Insider Monkey, but charges less for a premium subscription than SEC Form 4. J3SG produces more insider breakdowns—such as recent buying by insiders with good track records, and its tables add optional features such as a ticker’s price/volume chart.

J3SG’s offering is granular enough to meet the needs of professional investors. But much of its information is accessible to individual investors who register. Subscriptions provide more in-depth information—trade alerts, charts, in-depth money-flow analysis—starting at $15 monthly.

While insider buying seems like a trading catalyst, it’s better suited to investing strategies, advises Dogan. Peter Lynch wasn’t a short-term trader. Insider buying was just one check mark on his lengthy list of buying criteria.

Constrained from selling at a profit within six months of a purchase, insiders are investors by definition. They’re often looking to earnings catalysts a year or two away, says Dogan. Maybe outsiders should, too. Consider insider buying as a signal to start accumulating shares on dips and to redouble research efforts on particular stocks.

At the very least, it can’t hurt to know the level of inside support that a ticker has before buying—or selling—it.

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