BLOG POST
Q&A
Part 2
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Q: What is the latest data on insider buying and selling?

Brian Lockhart: Institutional investors have been increasingly reducing stock market exposure as the markets surge to new highs, and tracking the activity of company insiders is likely one of the reasons. It is presumed that people considered insiders, board members, and key management and executives, have non-public knowledge about the outlook for company earnings or other reports that would impact how their stock is likely to trade in the future. While there are obvious reasons why insiders sell, diversification and personal liquidity needs when the numbers become very skewed towards buying or selling can signal a change in market direction.

The most recent data out of tracking company Sentiment Trader shows the ratio of insider sells to buys at a staggering 143-1. That means there are 143 insiders registering a sale of stock for every insider registering to buy their company's stock. This is the highest level since data was tracked starting in 2006, and more than double the previous peak according to the firm. It is not surprising, given the historically elevated valuations, that smart investors, regardless of insider status, would be selling into strength. It is the magnitude of selling that suggests that a turning point may be imminent. When you consider that margin in brokerage accounts recently exceeded $1 trillion, an increase of 72% from this time last year, there are multiple indicators suggesting stocks could be near an inflection point.

Clint Pekrul, CFA: Tracking the net insider buying and selling of the overall equity market can help gauge investor sentiment and predict if the market is likely to continue moving higher, or perhaps move lower in the near term. After the onset of the COVID-19 pandemic in March 2020, the ratio of the number of insiders selling to the number of insiders buying briefly dipped below one. Not surprisingly, at the time, there were more insiders selling than buying. However, as we moved through 2020 the ratio quickly changed and accelerated upward. By the end of the year there were roughly four-and-a-half times more insiders buying than selling. Markets surged to new highs, which pushed valuation multiples into the stratosphere.

What we have seen recently, however, is a bit of a pullback in the insider ratio from a high of four-and-a-half down to roughly three-and-a-half. This pullback is not too surprising when you consider the magnitude of the run up in stock valuations off the pandemic lows a year ago. Perhaps it is an indication that insiders are simply taking some profits off the table. However, it could reflect increased concerns about inflation and uncertainty about the Fed's future path on interest rate policy. For now, markets are calm, but insider activity is worth monitoring.