

# BARRON'S

THE DOW JONES BUSINESS AND FINANCIAL WEEKLY

www.barrons.com

JULY 9, 2001

By ALAN ABELSON

The Street is doing everything it can, as its seers sound the call to buy! buy! buy! loud and clear. But paradoxically, those who stand to benefit as much if not more than anyone from a rising market -- the men and women who run our corporations -- resolutely refuse to do their share. Quite the opposite.

These two charts graphically describe this striking disparity. The chart on the left shows the mounting bullishness of Wall Street's stock-market strategists who have been urging investors to steadily boost the portion of stocks in their portfolios. At last count, the average equity allocation recommended by these peerless seers stood at a formidable 71%.



Okay? Now gaze at the chart on the right, which traces the ratio of insider sales to insider buys over the same span -- from the beginning of 2000 to the middle of this year. What you see is a rising tide of bearishness, expressed in a gathering scramble to unload the stock of the companies they know inside out (which, of course, is why they're called "insiders") -- their own.

In the week ended June 27, so good old Vickers tells us, officers, directors and outsized owners dumped more than seven shares for every one they bought and over the past eight

weeks they've averaged close to four sales for every purchase. Compare that with what these muckety-mucks usually do: sell something like two shares for every share they buy.

We've noted more than once of late this extraordinary inclination by insiders to unload their shares. No doubt this remarkably universal desire to divest is one of the unintended consequences of the profligate generosity with which the corporate gods rained down stock options on them during the late, great glory years of boom and bull market. We suppose that just as average Joes have to dip into their savings when times get tough, our valiant corporate leaders are forced to shed shares.

But, we have a hunch, the overpowering urge to sell that has seized insiders also springs from the happy accident of location. They just happen to enjoy the best possible perspective on how their companies are faring and, even more important, how they're likely to fare.

In any case, although we've been dutifully alert to the fierce and unrelenting bearishness of the worthies responsible for the destinies of America's corporations, we hadn't thought to contrast their actions with the strongly bullish rhetoric of Wall Street's stock-market strategists. So we're particularly grateful to **Michael O'Higgins of O'Higgins Asset Management**, in glorious Miami Beach, for gently prodding us to take note of that telling divergence.

Michael, inventor and exploiter of the Dogs of the Dow theory -- one year's Dow laggards are the next year's likely winners -- is an astute hedge-fund manager versed in market lore and unfailingly skeptical of the conventional wisdom. He has written a couple of investment books, but then, no one's perfect.

Apart from the sheer and growing imbalance in recent months of their sells over buys, Michael points out that at market bottoms in 1974, 1990 and 1998, insiders aggressively bought more of their stock than they sold; and, in 1982, the preponderance of sales over purchases shrank precipitously. The average sell-buy ratio at these past four market nadirs, he reckons, worked out to 0.92.

Which, he implies -- and we unabashedly concur -- casts more than a dollop of doubt on the strategists' confidence that the bear market has gone into permanent hibernation. But then strategists are essentially professional kibitzers, while insiders are players. Between the two -- and with the rueful knowledge that we're sort of a semi-professional kibitzer in our own right -- for some mysterious reason, we lean toward the players.

Not, of course, that insiders are infallible. However, grant them at least a certain edge in knowing what's happening to their businesses. And it doesn't take a Ph.D. in logic to infer that their perception of the outlook for their companies influences their appetites for the stocks of said companies.

It all boils down to this: No one, insider or outsider, ever bought a stock because he thought it was going to go down. And no one, insider or outsider, ever sold a stock because he thought it was going to go up.