
Insiders Snag Stocks After Bank Turmoil 2

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Insiders Snag Stocks After Bank Turmoil

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Corporate insiders raced to buy shares of their own companies after last month's banking crisis, signaling a vote of confidence in this year's market rebound.

More than 1,000 officers and directors at more than 600 companies bought their own stock in March. That is the highest number on an individual and company basis since last May, according to the Washington Service, an insider-trading **data analytics** provider. The ratio of insider buying to selling last month swelled to the highest level since September, the firm found.

Financial firms represented a significant percentage of the buying activity last month as executives bet their stocks would recover after the rapid collapses of three U.S. banks set off a panic that threatened to destabilize the global financial system.

Walt Bettinger, Charles Schwab Corp.'s chief executive, for example, bought about \$3 million of the brokerage's stock in mid-March when shares sank amid concerns of deposit flight, and he said the company was on solid footing.

Investors often pay attention to trading action reported by corporate insiders because executives and board members typically have greater insight into their companies' outlook. Insiders often time the market well; they bought en masse in March 2020 when stocks plunged at the onset of the pandemic and enjoyed the subsequent rally.

The recent uptick in insider buying, particularly in the financial sector, signals corporate optimism in the wake of banking-sector turmoil, providing some reassurance to investors as stocks bounce from last month's lows. The major U.S. stock indexes have proved fairly resilient after March's tumult, with the S&P 500 up 7.7% in 2023, though the index slipped last week.

"There was a lot of fear in the market that drove down the value of some good businesses. That was a situation where you're throwing the baby out with the bath water," said Stephanie Lang, chief investment officer at wealth-management firm Homrich Berg. "If insiders put their money in line with their shareholders, that is a good endorsement for the stock."

Last month, officers and directors at financial firms made up more than half of all insiders who bought company stock, the highest share for the sector in at least two years, according to the Washington Service.

Insider buying in March was concentrated in regional banks, according to investment-research firm VerityData. Texas-based Cullen/Frost Bankers Inc., California-based PacWest Bancorp and Ohio-based Fifth Third Bancorp were among the regional firms whose insiders purchased company shares after Silicon Valley Bank failed.

"The insiders are signaling that they feel confident in their banks' abilities to weather the storm. That type of signaling is certainly positive for investors," said Ben Silverman, director of research at VerityData.

Eric Diton, president and managing director of investment advisory firm the Wealth Alliance, said the rush of stock buying from bank insiders confirmed his belief that the banking crisis is contained. He said he has an optimistic outlook on U.S. equities and is especially positive on dividend-paying stocks as he anticipates interest rates could soon ease.

"I'm a big fan of watching what corporate insiders do," Mr. Diton said.

Recent quarterly reports from banks paint a mixed picture of how the industry is faring. Giants such as JPMorgan Chase & Co. sailed through the crisis as customers moved deposits to bigger institutions from smaller firms. Some regional banks like Western Alliance Bancorp said deposit outflows had steadied. Other Main Street banks noted they are having a tougher time hanging on to customer money.

Bank stocks have stabilized in recent weeks but haven't recovered their March losses. The SPDR S&P Bank exchange-traded fund and Regional Banking ETF are down 19% and 27% this year, respectively. Moody's Investors Service downgraded 11 regional banks Friday, saying recent events have raised questions about the stability of some banks' deposits.

Outside the financial sector, insiders also picked up shares in some consumer-focused firms, VerityData noted. Domino's Pizza Inc. CEO Russell Weiner bought about \$1 million in shares at the beginning of March, marking his first stock purchase as a reporting insider and the first insider buy at the company since 2015, according to VerityData.

Many insider sales are made on predetermined schedules to avoid the appearance of illegal trading on nonpublic information, but Mr. Silverman said VerityData focuses on transactions that weren't planned in advance in order to better reflect real-time sentiment. Officers, directors and major shareholders of publicly traded companies in the U.S. are required to disclose most trading activity involving their firm's shares within two business days of the transaction.

So far in April, corporate insiders' transactions have been muted, in line with seasonal trends for the first month of the quarter, according to VerityData. Most insiders are constrained until their companies report earnings.

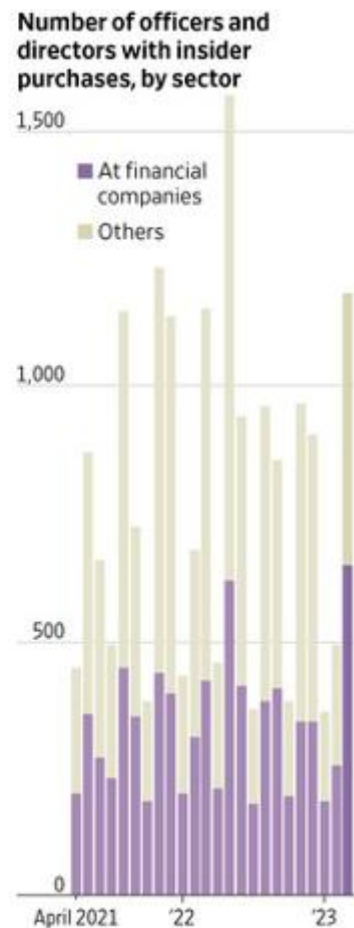
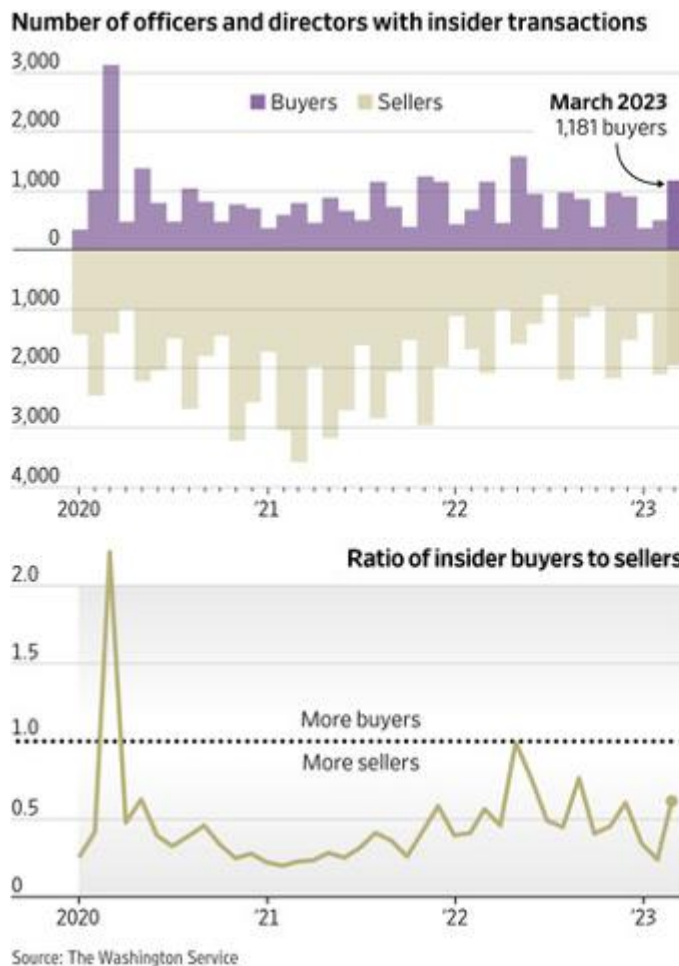
Insider selling usually trumps insider buying in a given month, in part because executives' compensation often includes shares, so they are likely to cash out when they need funds.

By contrast, when insiders buy their company stock, it usually means they think shares are undervalued and could soon move higher.

Analysts tend to pay attention to the number of buyers and sellers rather than dollar amounts to deduce sentiment trends because a few large sellers can have an outsized impact. In March, insider buying totaled about \$800 million, compared with nearly \$3.4 billion in selling, according to the Washington Service.

Some investors analyze insider transactions with more caution. Victoria Fernandez, chief market strategist and portfolio manager at Crossmark Global Investments, said the increase in insider buying is a positive sign but isn't the only indicator she uses to form her investment outlook. Her firm anticipates stocks could drift lower if corporate earnings turn out weaker than expected and if the Federal Reserve increases interest rates longer than anticipated, she said.

"Are insiders buying because they need to support the stock price instead of because they think it is undervalued?" Ms. Fernandez said. "I think you have to be careful."



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