

## Let Company Insiders Tell You To Buy

### Creating a stock screen to find trading opportunities

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I have talked about insider trading before, and how it is a good sign when company insiders — or other beneficial owners — start buying their own shares. After all, insiders have a better perspective on day-to-day operations, and know more about the business, than anyone else. That's why many investors track these purchases.

Of course insiders sell shares also, but that is not necessarily a good indication of their views. Insiders may sell stock for many reasons. Company officers often receive stock or options as part of their compensation, and sell shares to finance big expenditures or to just prudently diversify their holdings. But they buy for only one reason — they think it's a good investment and the stock price will go up.

Fortunately, investors can track purchases easily, since the SEC requires that insiders report their trades. Let's look at how to create a stock screen that finds stocks with good potential that also have a vote of confidence from company insiders.

As usual, I will start with Market Capitalization. I chose only stock with a market cap of at least a billion dollars, since I want larger companies that have options available.

Next I chose to look for those with Net Insider Transactions (the number of shares purchased minus number of shares sold by insiders as reported in the past month to the SEC) greater than 100,000.

I don't want a bunch of low-priced stocks, so I chose to look only at those with a Last Price greater than or equal to \$10. That means the minimum dollar amount of net buying by insiders for companies that come up would be a million dollars.

Finally, since I like bargains, I required that the Current P/E Ratio be less than the industry average. Only two companies met these criteria: Energizer Holdings (Symbol: ENR) and Tenet Healthcare (Symbol: THC). A picture of the stock screen and results is shown below:

Deluxe Screener						
Free Cash Flow						
Field Name	Operator	Value	Field Description			
Market Capitalization	>=	1,000,000,000				
Net Insider Transactions	>=	100,000				
Last Price	>=	10				
P/E Ratio: Current	<=	Industry Average P/E Ratio: Current				

  

Symbol	Company Name	Rank	Market Capitalization	Last Price	Net Insider Transactions	P/E Ratio: Current
ENR	Energizer Holdings, Inc.	1	2,364,692,580	27.03	531,300	12.20
THC	Tenet Healthcare Corporation	2	7,169,243,489	15.30	110,000	8.70

Between the two I would be more bullish on Energizer Holdings myself. Even disregarding the recent accounting and management problems Tenet Healthcare has experienced (causing a sudden 50% drop in stock price), the fundamentals still favor Energizer.

It is only because of that sudden drop in price (and investor confidence) that THC may, at least on price and valuation measures, look like a relatively better bargain. The P/E ratio of 8.7 is much lower than the 12.2 for ENR. And while THC's Price/Sales ratio is just slightly higher, the Price/Book of 1.30 versus ENR's 3.0 might on the surface seem to make THC look good to those thinking value investing.

But I like the fact that ENR is carrying a much lighter debt load, with a debt/equity ratio of .38 versus the .78 for THC. From a technical view ENR also looks better, with a relative strength rating vs. the S & P 500 for the past 12 months of 82.1% versus the pathetic 8.4% for THC. And finally, ENR trounces THC on every measure of management effectiveness, and has for past 1, 3, 5, and 10 year time periods:

Management Effectiveness						View chart
	Return on Assets	3-yr Avg Return on Assets	5-yr Avg Return on Assets	10-yr Avg Return on Assets	Revenue/Employee (000's)	
ENR	11.7%	6.4%	6.4%	6.4%	\$175	
THC	7.4%	5.0%	3.9%	1.6%	\$131	
	Return on Equity	3-yr Avg Return on Equity	5-yr Avg Return on Equity	10-yr Avg Return on Equity	Income/Employee (000's)	
ENR	26.4%	14.8%	14.8%	14.8%	\$20	
THC	18.2%	13.1%	11.3%	4.7%	\$8	

Looking at the Matrix there are any number of longer-term trades available. You could of course simply buy the stock itself. The August or November 25 calls, which are just slightly in-the-money, would probably be the best for straight option purchases.

Those looking for a slightly higher probability of profit with less volatility risk could consider bull call spreads, purchasing the 25 calls and then selling the 30, or even 35, calls against them. Just try putting some of these trades in and then use the graphic analysis to see which best fits your trading objectives and temperament.

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