Insiders Sell Stock at Fastest Pace Since 2012 in Market Dip

September 25, 2020

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A group of investors who correctly timed the stock market's bottom in March isn't bargain hunting yet during the current selloff. Instead, they're stepping up sales, flashing an ominous signal to any dip buyers.

Corporate executives and officers at S&P 500 companies were busy unloading shares of their own firms over the last four weeks. The selling picked up so much versus buying that a measure of insider velocity tracked by Sundial Capital Research pointed to the fastest exit from stocks since 2012.

While factors other than valuations can influence insiders' decisions to sell, the action from this cohort -- likely the most-knowledgeable about their own businesses -- is hardly encouraging news in a market where the S&P 500 is heading for its worst September since the global financial crisis. The index's 2.4% plunge on Wednesday extended its retreat from the Sept. 2 record to 9.6% and left it little changed in 2020.

"They're voting with their feet," said Dan Genter, chief executive officer of RNC Genter Capital Management. "It's not an indictment saying their company is not going to do well in the future. But on a relative-value basis, we're not going to do that well."

Insiders sold about $975 million worth of shares last week, more than double the previous week, according to Securities and Exchange Commission data compiled by Bloomberg. Their purchases increased by roughly 10% to $11 million.

Microsoft Corp. Chief Financial Officer Amy E. Hood and Corning Inc. Chief Executive Officer Wendell P. Weeks are among executives who sold shares this month.

The surge in selling is a marked departure from the dip-buying mentality seen in March, when corporate insiders scooped up shares as stocks fell into the fastest bear market on record. Right now, the S&P 500 is cheaper than it was three weeks ago, but it's still not the bargain it was in March.

At 21 times forecast earnings, the S&P 500's multiple sits more than two points below the level seen on Sept. 2, when a five-month, 60% rally drove valuations to the highest since the dot-com era. Still, the ratio dipped below 14 in March.

"It was obviously a great buying opportunity given the sharp pullback in stock prices earlier this year and expectations that we would come out on the other side and global economic activity would resume thanks to the timely and assertive response from policy makers," said Candice Bangsund, portfolio manager of global asset allocation at Fiera Capital Corp. "It's likely a valuation story with those numbers now trailing off -- particularly as many companies bounced back so forcefully since those March lows."

Moreover, there is a long list of macro risks, including dwindling chances of a new congressional stimulus package, worrying Covid-19 trends worldwide, and heightened tensions between the U.S. and China. Not to mention the presidential election in November. All portend risks that are enough to threaten the budding economic recovery.

"There is this sense of hesitation and pause among business owners awaiting a number of uncertainties that are out there in the face of relatively full valuations," said Kevin Caron, portfolio manager for Washington Crossing. "Business owners, CEOs, investors are now in this phase of, where do we go from here?"

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