

Insider Trading vs. Insider Buying

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“Okay, what if we go outside - will it still be insider trading then?”

Insider Trading

Illegal insider trading refers generally to buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, nonpublic information about the security.

- U.S. Securities and Exchange Commission

Not only is trading on insider information illegal, it is also a very stressful way to make money. The U.S. SEC has a robust whistleblower policy. The punishment ranges from prison sentence to criminal fines.

In February 2016, executives at CP ALL (operator of 7-11) were found guilty of insider trading. The executives were fined for purchasing shares in Siam Makro in 2013, when CP ALL was in talks to acquire it in 2013.

CP ALL took no action against the executives because of their ‘previous track records of ethical practice and immediate compliance and settlement with the SEC.’ This episode highlights the soft penalties for financial wrongdoing in Thailand. This raises all sorts of corporate governance issues and hurts investor confidence.

However, just because illegal insider trading is prevalent, this doesn't make the SET market 'uninvestable'. There are plenty of good companies. It just means that you need to carefully evaluate management. My preference is to only invest in companies run by honest and talented people.

Furthermore, if you do good valuation work and you are right, Mr. Market will reward you. In the short run (1-2 years), the market is relatively inefficient. But in the long run, Mr. Market is rational and gets it right – price and value will converge. The main reason investors lose money is usually because of bad analysis, not bad luck or market manipulation.

Insider Buying

When I make investment decisions, I only use publicly available information. To help tip the odds further in my favor, I will sometimes look at what the insiders are doing. This is completely legal.

It is often a good sign if management and the Board are aggressively buying shares on the open market. After all, who knows the company better than management?

However, if I think a company looks undervalued but if management and the Board are engaged in heavy selling, I will reevaluate my thesis.

Insider selling isn't necessarily a sign that management has lost confidence in the company. They could be selling for non-company related reasons such as to put a down payment on a house.

This is not a rule. You should use common sense and look at it on a case-by-case basis.

When corporate insiders trade in their own securities, they must report their trades to the US SEC. The following forms track insider buying and selling in publicly listed U.S. companies:

SEC Form 3

- Filed within 10 days after the event by which the person becomes a reporting person (officer, director, 10% holder)
- Filed when a person becomes an insider regardless of whether he has an equity position in the company at that time
- Typically seen after a company IPOs when insiders make their first transactions. After a Form 3 is filed, future filings of the same nature are filed under Form 4

SEC Form 4

- Filed whenever there is a material change in the holdings of company insiders or beneficial (10%) owners of the company's outstanding stock
- Filed within 2 business days
- Covers any buy and sell orders on the open market and exercise of company stock

SEC Form 5

- Annual disclosure/combination of year's Form 4 filings
- Insider transactions involving small amounts of money (gifts) are sometimes exempt from the usual Form 4 reporting requirements. These unreported insider Form 4 transactions go in the Form 5

If you are living in Thailand, go to www.sec.or.th. Scroll to the bottom of the page and select 'Form 59-2'

The screenshot displays the SEC website interface. At the top, there are two news articles with accompanying photos. The first article is titled "SEC signs MOUs to enhance CERT-Readiness" and the second is "SEC joins National Anti-corruption Day 2016". Below the news is a navigation menu with a dropdown menu open, showing "Form 59-2" selected. At the bottom, there are several service links: "Online Submission", "ISIN CODE", "Fund Mobilization Projects", "Sustainability Development Roadmap", and "ASEAN CIS".

SEC signs MOUs to enhance CERT-Readiness
The SEC has signed two memoranda of understanding with four regulators and 13 business and industrial organizations to strengthen CERT (Computer Emergency Response Team) on 22 September 2016.

SEC joins National Anti-corruption Day 2016
The SEC Board members, management and staffs joined the public and private sectors to celebrate the National Anti-Corruption Day on September 11, 2016 at Sanam Luang Royal Plaza, Bangkok. The public event is organized annually by the Anti-Corruption Organization of Thailand (ACT).

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