The INSIDER'S DOSSIER

HOW TO USE LEGAL INSIDER TRADING TO MAKE BIG STOCK PROFITS

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HOW TO USE *LEGAL* INSIDER TRADING TO MAKE BIG STOCK PROFITS

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The Insider's Dossier: How to Use Legal Insider Trading To Make Big Stock Profits

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Foreword

When you're a business news journalist as I used to be, you get to meet and interview a lot of CEOs and other high-profile magnates. I've been lucky enough to ask questions of Bill Gates, Warren Buffett, Michael Dell, Intel's Andy Grove, Southwest Airlines founder Herb Kelleher, Ted Turner, Richard Branson, and countless others.

Some you chat with in person; others you talk with on the phone, on a satellite video connection, or at a press conference. The one thing all of these highly successful individuals have in common: Each has an idea to sell.

Sometimes they're selling a theme: "My company is growing fast — we have many quarters of rapid expansion still ahead."

Other times they're trying to revive the firm's reputation: "The restructure is going perfectly according to plan, even though we just lost millions more in red ink last quarter."

And still others aim to downplay expectations and manufacture a surprise turnaround with an upcoming profit report: "Things are beginning to look better, but keep in mind that we're expecting lots of positive change between now and next quarter . . ."

What does all of this have to do with a book about tracking the share-buying activities of corporate "insiders" (the CEOs and others who make up a company's leadership)? Plenty, because here's something else you realize after following the comings and goings of top executives: Almost anyone who's a good talker, with a well-cut Brooks Brothers suit (not to mention a top-notch stylist and a good manicure), can act the part of the CEO. That's easy.

But when it comes to actually creating shareholder wealth . . . Well, that's something else entirely. Sure, the CEO can follow the standard corporate strategy playbook: Is an underperforming division holding back growth? Sell it off. Moribund stock price? Restructure the company. Long-term growth rates are slowing? Refocus on new profit opportunities.

That's all well and good, but are those viable strategies? For every successful turnaround, a dozen others never pan out. Why? Because of poor decisions by upper management. And that's something that can't be fixed — no matter how many press releases are issued, or how often the CEO appears on the financial news programs.

That's why it's so important not to follow what executives *say*, but rather what they *do* with their money.

I'm not talking about stock options (which many companies dole out like candy, costing them nothing), but cold hard cash. That's money already earned by the board members and executive team that they're now reinvesting back into their company's equity base.

When you start seeing that happen, that's when the probabilities for creating sustainable shareholder wealth begin looking a lot better. In betting parlance, the corporate types and the shareholders all have their money riding on the same horse.

So that's the goal: finding companies where the corporate insiders are personally buying their stock in significant quantities. But, like many things on Wall Street, even that simple equation is a lot more complex than it appears.

That's why you'll be happy to have Andrew Packer, editor of Newsmax Media's Insider Hotline Newsletter, to guide you through the ins and outs of this investing strategy.

Keep in mind that there are literally thousands of publicly-held companies. And they file scores of documents with federal regulators disclosing their executives' inside trades. Andrew shows you how to find the valuable nuggets buried within that mountain of insider trading data. He cuts through all the extraneous "noise" and demonstrates how to profit alongside all those bullish corporate executives — i.e., when to buy, and how much.

Just who is Andrew Packer? He's one of those rare people who has a sort of natural instinct for investing and a keen eye for wealth-building. That's why Andrew learned the importance of growing wealth and putting time on his side by investing at a young age, starting with precious-metals investing before the age of 10 and building a stock portfolio before the age of 13. Today, Andrew invests in everything from stocks, real estate, and mutual funds/ETFs (exchange-traded funds), to commodities and options.

Along the way, Andrew acquired a BA in economics and has honed his analytical skills, working in real estate research and private equity. Even while working, he's found the time to experiment with different investment strategies (one of his most powerful strategies is revealed in Chapter 9 of this book). Andrew is currently editor of the Financial Braintrust with Moneynews, a frequent contributor to the Financial Intelligence Report Newsletter (which he also used to edit), and editor of the Options Trader investment service.

Andrew is author of the runaway bestseller *Aftershock's High Income Guide*, which has helped hundreds of thousands of readers start generating meaningful income at today's low interest rates. In 2012, he wrote *Uncharted: Your Guide to Investing in the Age of Uncertainty*, which looked at the challenges — and opportunities — investors face in the current, precarious global economy.

As an investor, Andrew approaches the market with a high level of concern for risk, following the tried and true investment advice from the "Oracle of Omaha" himself, Warren Buffet:

Rule #1: Never lose money.

Rule #2: Never forget rule number 1.

That's partly why Andrew is such a big fan of investing alongside bullish insiders. It puts the odds in your favor. But it's not just the win/loss ratio of insider trades — it's the market-crushing returns you can obtain as well.

After reading Andrew's guide, you're sure to come away with a unique understanding of this highly lucrative investment strategy.

And better yet, you'll be a smarter, wiser, more profitable investor who knows how to boost his or her investment returns while lowering risk at the same time.

Jeff Yastine
Director of Financial Newsletters, *Moneynews*

Introduction: Decoding the Mystery of the Public Room

"An investment in knowledge pays the best interest."

— *Benjamin Franklin*

In the middle of Washington, DC, a moderately tall building holds one of the best known sources of financial information. With this information, anyone with a brokerage account has the tools he or she needs to handily beat the market year after year.

Yes, it's a government building, but it's not the US Treasury — they don't even handle money in there. That's the responsibility the Bureau of Engraving and Printing, which could hardly be confused with the building to which I'm referring. Nor is this could this building be confused with the Federal Reserve building. The Fed is slowly becoming more public about its monetary policy, but it's still not as transparent as this particular agency.

This building is at 100 F Street, NE, right by Union Station, just north of the Capitol Building. Flagpoles stand formidably outside the entrance, as do security guards.

It even has a room set aside for the public. Naturally, the government named it the Public Room.

While most of the building is off-limits to anyone not strictly working for the government or on government business, you can find (or if necessary, request) within this room whatever information you need. Why? Because this agency exists to acquire and disseminate this information to anyone with an interest in learning it.

The information available from this government agency is vast. In an average year, its data reporting is increased by over 270,000 forms. In a country with a population of more than 315 million, that may not seem like a lot. But it is staggering when you consider that only 15,000 organizations are required to file information here.

Yes, some of the information this agency receives is held back from the public. But what's astonishing is how much of the data collected is available to anyone who walks in . . . *free of charge.*

The government agency is the US Securities and Exchange Commission (SEC), and the data collected and disseminated is based on insider trades. This includes purchases, sales, and simple disclosures of ownership.

Chances are you've heard that investing alongside insiders can help boost your returns. In this guide, we'll look at insider trades. Specifically, we'll find out how buying shares alongside high-level executives, board of director members, and major shareholders (those with a 10 percent or larger stake) can give you higher returns than the market.

Most investors and fund managers can't even beat the market year over year. They chase stocks that have performed well right before those stocks crash. Yet corporate insiders have a consistent track record of trouncing the market. That's why this information is so powerful — provided you know how to decode it.

Before we delve into the details, here are the key takeaways on insider trading:

These insider trades are legal. (We'll look at the specific differences between a legal and an illegal insider trading in Chapter 3.) The entire point of creating the SEC was to ensure that the public received materially important information on a company as soon as its officers, directors, and major shareholders did. Hence the strict reporting requirements for every trade — even a trade as small as buying or selling one share!

These insider trades beat the market average consistently. On average, a portfolio of stocks based on insider buying will beat the market by 6 percentage points per year. Of course, if you know how to read the data, you could avoid some of the insider buys that go disseminate this information to anyone with an interest in learning it.

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These insider trades beat the market average consistently. On average, a portfolio of stocks based on insider buying will beat the market by 6 percentage points per year. Of course, if you know how to read the data, you could avoid some of the insider buys that go awry — and do even better than those “in the know” execs! Imagine making 20 percent from a stock in only three months; or making 42 percent gains buying a stock before it realizes record-smashing earnings; or even using some of the more advanced strategies in this guide, making triple-digit gains while putting far less capital at risk.

These insider trades are easy to follow . . . and getting easier every year. For decades, professional investors have had an information advantage. They’ve been able to get this data faster than mom-and-pop investors. This information edge has enabled them to achieve even better returns by getting into trades alongside insiders more quickly. But that’s changing. Today, regular investors can get the information faster and cheaper than ever before. This narrowing advantage between professionals and insiders isn’t completely gone yet, but it’s getting there.

But there’s a catch. And it’s a big one. This information is public . . . but it’s encoded. To understand this information and how to profit from it, the data must first be interpreted. What’s more, once you have decoded it, you need to know how to apply it to your brokerage account to get the full financial benefit that it offers.

Between the layers of government forms and Wall Street lingo, that can be a tough prospect. But it’s not impossible. In this guide, we’ll decode the secrets of the public room, find a way to access the information without taking regular trips to Washington, DC, and even look beyond this information to better improve investment returns.

I’ve divided this book into two sections. In the first, we’ll look at the hard data behind insider trading: how (and why) it outperforms the market indexes, and how you can narrow that data down to the profitable essentials. In part two, I’ll show you how make the strategy of following corporate insider buys even more profitable by examining some other very important factors.