

## Do Investment Newsletters Move Markets?\*

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**Key Words:** Insider Trading, Second Hand News, Investment Newsletters, Form 4 SEC Filings.

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### **I: Introduction**

Corporate executives and board members are expected to have a significant financial stake in the common stock of the companies that they run. Doing so moderates agency costs as discussed by Jensen and Meckling (1976). As a result of owning company stock, insiders trade frequently. In many instances, these trades represent uninformative portfolio rebalancing, particularly after insiders have recently exercised a significant number of stock options. However, a subset of insider trades occur because an insider believes the company is either under- or over-valued. Investors actively try to decipher what information motivates these insider trades in order to identify profitable trading strategies. Our analysis focuses on a particular investment newsletter that bases its investment recommendations on periods of intensive insider buying. These recommendations are then e-mailed to newsletter subscribers. We analyze whether there are short-term price and volume reactions to these recommendations and whether longer-term trading strategies using these recommendations generate excess returns.

Analyzing an investment newsletter in this context is interesting for several reasons. First, the newsletter's recommendations are purely second-hand news as these

are based on publicly available Form 4 SEC filings.<sup>5</sup> Moreover, the newsletter recommendations are not sent out to subscribers until approximately 20 days after the last insider trade that constituted either a single large purchase or an intensive trading cluster by a group of insiders. Because the newsletter recommendations represent second hand information, a significant short-term market reaction would be surprising, particularly to efficient market purists. The second reason that analysis of this particular newsletter is interesting is because its subscriber base is relatively small – during the time period of our sample, subscriptions grew from 2,300 to slightly more than 9,000 individuals. Moreover, the newsletter administrator confirms that these are almost entirely retail traders. Whether such a small subset of traders can have a perceptible impact on prices and volume is an open question. Finally, the analysis of an individual newsletter is of interest for assessing the efficacy of purchased financial advice. In particular, do long-term excess returns justify paying the newsletter’s subscription fees, or would investors be better off with a much less sexy low cost index fund?

The newsletter that we focus on is The Insider Alert, published by The Oxford Club and written by Alex Green. As noted, we focus on this particular newsletter since the information on which its recommendations are based is public and easily accessible. The newsletter promulgated 127 separate recommendations over a 6 year period from

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<sup>5</sup> The SEC requires officers, directors, and owners of more than ten percent of a publicly traded firm’s common equity to file Form 3’s – Initial Statement of Beneficial Ownership, Form 4’s – Change in Insider Ownership Position, Form 5’s – Annual Statement of Changes in Beneficial Ownership (this documents minor changes that are exempt from Form 4 filing requirements), and Form 144’s – Declaration of Intent to Sell Restricted Stock. Prior to August 29, 2002, Section 16(b) of the Exchange Act of 1934 required corporate insiders to file Form 4’s detailing their trading activities with the SEC within ten business days after the close of the month when the actual trades occurred. The Sarbanes-Oxley Act of 2002 reduced filing time significantly to within two business days of the actual trade. As of June 30, 2003, Form 4 filings must be made electronically. The SEC is required to post these Form 4 filings on its EDGAR website by the day after receipt. Firms with websites must also post information about insider trades by the day after the Form 4 is filed with the SEC.

December, 2001 through May of 2008.<sup>6</sup> We find that there is a significant announcement effect associated with the newsletter's release of the second hand news regarding intensive insider trading events. For the days  $t-1$  to  $t+1$  surrounding the release date of each alert, the market model cumulative abnormal return is 2.82% and is highly statistically significant. Trading volume is also significantly greater than normal around the release date, suggesting an increase in information asymmetry due to the non-public information release. Most of the impact is associated with alerts that highlight clustered buying by a group of insiders rather than intensive accumulation by an individual insider.

There is also a significant announcement effect associated with the initial Form 4 filings with the SEC. We identify the three heaviest insider Form 4 filing days in the 60 day window from release date - 63 to release date - 3. If the number of insiders identified in the alert was three or more, we keep all three heavy insider filing days. If the number of highlighted insiders was two or one, we keep only the top two or single heaviest insider filing days respectively. Cumulative abnormal returns for the  $t-1$  to  $t+1$  period surrounding the heavy insider Form 4 filing dates is 3.29% and is statistically significant at the one percent level. We also find significant abnormal returns when focusing on the heavy insider trading days that necessitated the Form 4 filings. The abnormal returns here, however, are much smaller in magnitude at 1.68%. Finally, we document significant negative abnormal returns of -1.38% for the  $t=0$  to  $t+1$  period when the newsletter recommends closing out previously recommended positions. A variety of robustness checks suggest that the perturbations in the market around the newsletter announcements are indeed attributable to retail traders.

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<sup>6</sup> One of the authors has a business relationship with the Oxford Club. This research, however, is independent of that business relationship. A more detailed description of the newsletter is provided later in the paper.

To assess the longer-term performance of the newsletter's recommendations, we calculate buy-and-hold returns at the 6, 12, 18, 24, 30, and 36 month horizons. Excess long-term returns are calculated relative to size and book-to-market matched portfolios and relative to individually matched firms. Mean (median) cumulative excess returns of the newsletter recommendations are consistently positive, peaking at approximately 20% at 24 months. Statistical significance at the five or ten percent levels is evident for the intermediate horizons.

Although our analysis is confined to recommendations of a single newsletter, our results highlight several important issues. Like many other studies, our event study evidence suggests that the market is not fully informationally efficient. There is a significant reaction to the underlying insider Form 4 filings, but there is also a reaction of similar magnitude to the release of second hand information highlighting those filings. Moreover, while the reaction to the second hand news appears to be driven by retail traders, we cannot characterize them as uninformed noise traders as the long-term returns of highlighted firms are relatively good.

## **II. Prior Research**

This study intersects with three existing lines of research: the impact of second-hand news, the efficacy of investment newsletter recommendations, and the informational value of insider trades. We will discuss each area separately.

### **A. Second-Hand News**

Multiple studies suggest that second-hand news is capable of moving markets. All published studies that we are aware of document significant announcement period price

increases in the case of buy recommendations and price decreases in the case of sell recommendations for stocks recommended in the Wall Street Journal's "*Investment Dartboard*" column (Barber and Loeffler (1993), Metcalf and Malkiel (1994), Albert and Smaby (1996), Pruitt, Van Ness, and Van Ness (2000), Liang (1999), and Porter (2004)), the Wall Street Journal's "*Heard on the Street*" column (Lloyd-Davies and Canes (1978), Liu, Smith and Syed (1990), and Beneish (1991)), Business Week's "*Inside Wall Street*" column (Mathur and Waheed (1995)), and the PBS television show "*Wall Street Week*" (Ferreira and Smith (2003)). Pu, Smith and Syed (1990), Barber and Loeffler (1993), and Chang and Suk (1998) document a concurrent increase in volume for their respective news sources.

Given that both prices and volume spike, the most prevalent explanation for the impact of second-hand news releases is price pressure. For some, potentially naïve investors, second-hand news from the right source is still news. Whether investing based on second-hand news is worthwhile is unclear. Mathur and Waheed (1995) and Ferreira and Smith (2003) provide evidence that longer-term excess returns associated with stock recommendations in Business Week or "*Wall Street Week*" respectively were positive. Porter (2002), however, shows that longer-term excess returns for analyst recommended stocks in the Wall Street Journal's "*Investment Dartboard*" column were negative. Given differences in time periods and estimation methodologies, it is difficult to conclude either way.

The limitation of the news sources used in the studies highlighted above is that they may not be reporting purely second-hand news – this point is raised and addressed by Beneish (1991). Four studies that appear to utilize truly second-hand news are Chang

and Suk (1998), Brixner and Walter (2007), Nixon, Roth and Saproshenko (2008) and Schlumpf, Schmid and Zimmerman (2008). Chang and Suk (1998) and Nixon et al. (2008) both analyze the market's response when stocks with the 10 largest insider buy and sell volumes are highlighted in the Wall Street Journal's "*Insider Trading Spotlight*". Both studies document a significant price reaction to the release and for Chang and Suk (1998), a concurrent increase in volume.

Brixnar and Walter (2007) analyze stocks highlighted in the "*Tendenzen and Tips*" column of Germany's Frankfurter Allgemeine Zeitung newspaper, while Schlumpf, Schmid and Zimmerman (2008) analyze stocks identified in Switzerland's major financial newspaper Finanz und Wirtschaft. In both cases, the releases are summaries of analyst reports that have already been released to clients of the analysts. Hence these are second-hand public reports of previously private news. Both studies find statistically significant stock price increase for buy recommendations. The economic magnitudes, however, are quite small.

To summarize, significant announcement period effects in published research indicate that investors give credence to second-hand news. In each of the previously discussed studies, however, the newspaper, magazine, or TV show in question has very high visibility and readership/viewership.

## **B. Investment Newsletters**

Prior research on investment newsletters is relatively sparse. Unlike with either mutual fund holdings or analyst recommendations – two areas where there is a vast amount of academic research – there is no publicly available source that provides investment newsletter data. Most studies that have analyzed newsletters have privately

obtained data from Marc Hulbert who is the publisher of the Hulbert Financial Digest (HFD).<sup>7</sup>

Academic studies that have utilized the HFD newsletter data include Graham and Harvey (1996 & 1997), Graham (1999), Metrick (1999), Jaffe and Mahoney (1999), and Kumar and Pons (2002). The common finding of all of these papers is that investment newsletters as a group show no ability to beat an appropriately chosen benchmark via their equity/cash allocation recommendations (Graham and Harvey (1996, 1997), Kumar and Pons (2002)) or via their specific stock picks (Metrick (1999), Jaffe and Mahoney (1999)). Despite lackluster overall performance, there is some evidence of performance persistence among both poorly performing and well performing newsletters (Metrick (1999), Kumar and Pons (2002)). There is also evidence that dispersion among newsletters in their recommended equity/cash allocation is associated with increased future price volatility and trading volume (Graham and Harvey (1996)). Finally, Kumar and Pons (2002) show that the subgroup of newsletters that employ higher-frequency contrarian strategies demonstrate some timing ability.<sup>8</sup>

### **C. Insider Trading**

In contrast to the literatures on second-hand news and on investment newsletters, the literature on insider trading is vast and dates back at least to Lorie and Niederhoffer (1968). The insider trading literature universally documents that insiders are contrarian

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<sup>7</sup> HFD is a newsletter about newsletters that started in 1980. It currently subscribes to “nearly 200” stock and mutual fund newsletters that collectively tout more than 500 model portfolios. HFD tracks the performance of the recommendations made by these newsletters and reports the results on a monthly basis to HFD subscribers. New newsletters are added to the covered set when enough subscribers identify a new newsletter as being of interest. While the underlying data collated by HFD is not publicly available, Hulbert has made it available to a number of academic researchers.

<sup>8</sup> There is an earlier literature that directly analyzes the investment performance of what is probably the best known newsletter, the Value Line Investment Survey. Studies in this group include Black (1973), Copeland and Mayers (1982) and Stickel (1985).



traders when trading their own company stock. They buy when book-to-market ratios are high, price-earnings ratios are low, and recent stock returns have been low. Conversely, insiders sell when the opposite conditions are present.<sup>9</sup> Research that documents at least one aspect of this contrarian behavior include Seyhun (1986), Lin and Howe (1990), Rozeff and Zaman (1998), Lakonishok and Lee (2001), Friederich et al. (2002), Hillier and Marshall (2002), Jeng et al. (2003), Piotroski and Roulstone (2005), and Fidrmuc et al. (2006).

With a few exceptions, prior research also demonstrates that insiders earn statistically significant excess returns across a variety of investment horizons and a variety of national markets. An incomplete list of this research includes Jaffe (1974a, 1974b), Finerty (1976a, 1976b), Baesel and Stein (1979), Givoly and Palmon (1985), Seyhun (1986), Rozeff and Zaman (1988), Lin and Howe (1990), Meuhlbroek (1992), Bettis et al. (1997), Lakonishok and Lee (2001), Hillier and Marshall (2002), Jeng et al. (2003), Piotroski and Roulstone (2005), and Brochet (2009).<sup>10</sup> These excess returns appear to be greatest for smaller firms where information asymmetry is greater, when multiple insiders trade in the same direction in a short period of time, and when the dollar value of the insider trades are greater.

What is less well resolved is whether outsiders can devise profitable trading strategies based on insider trades. Studies that suggest that outsiders can earn excess

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<sup>9</sup> Many of the more interesting aspects of insider trading are more evident, both economically and statistically, for insider purchases as compared to insider sales. Most researchers attribute this to the fact that many sales are driven by portfolio rebalancing needs, particularly for insiders that have recently exercised stock options that were granted as part of incentive compensation.

<sup>10</sup> A few papers, such as Lin and Howe (1990) argue that transaction costs eat up any economically significant excess returns. Others, such as Rozeff and Zaman (1988), Jenter (2005) and Nixon et al. (2008) argue that statistically significant excess returns following insider purchases and sales are largely an artifact of poorly specified return models. In particular, once the book-to-market and size effects are controlled for, excess returns are not significantly different from zero.

returns by mimicking insider trades include Pratt and Devere (1978) and Bettis et al. (1997). Other recent studies, however, generally find that outsiders either earn economically insignificant excess returns by mimicking insiders, or no excess return at all. Most suggest that transactions costs are enough to eliminate the possibility of profitably mimicking insider trades (Seyhun (1986), Rozeff and Zaman (1988), Lin and Howe (1990) and Friederich et al. (2002)). It seems clear, however, that insider trades in general are monitored by the market. Givoly and Palmon (1985) and Aboody and Lev (2000) both document positive (negative) excess returns in the days following insider purchases (sales) but prior to actual filing of the Form 4. Brochet (2009) documents significant abnormal returns subsequent to the Form 4 filing and that the informational impact of filing increases following the accelerated filing requirements legislated by the Sarbanes-Oxley Act of 2002.

### **III. Data and Sample Selection**

As noted in the introduction, the second-hand news analyzed in this study is stock recommendations from an investment newsletter maintained by The Oxford Club entitled The Insider Alert and under the direction of Alex Green. The newsletter promulgated 127 separate recommendations over a 6 year period from December, 2001 through May, 2008. The newsletter discusses the transactional activities of insiders (executives, beneficial owners, and large shareholders) and provides stock-picking advice to its subscribers as well as general and specific information about the insider, the company, the industry, and the economy. A valid recommendation has buy, sell, and stop-loss trailing advice. As of December 2009, The Insider Alert is transmitted to 10,246 paying

subscribers by e-mail. An example of an Insider Alert issued March 3, 2008 is provided in Appendix A.

Prior to August 29, 2002, insiders were required to file Form 4's with the SEC within 10 business days after the close of the month when the actual trade occurred. Subsequent to that date, insiders were required to file within two business days of the actual trade. The speedier filing requirement was further amended to require electronic filing of Form 4's as of June 30, 2003. Thus, the recommendations promulgated by the Insider Alert newsletter span three different regulatory regimes.<sup>11</sup>

A full listing of the stock recommendations made by the newsletter and their respective release dates is provided in Appendix B. Of the 127 total recommendations, 38 are for NASDAQ listed companies and one is for an OTC Bulletin Board company. The remaining recommendations are for NYSE listed companies. No AMEX, regional, or internationally listed companies are present. Each alert highlights one stock and the newsletter typically promulgated two alerts each month. Consecutive alerts are usually spaced by about two weeks. Thus, the recommendations are consistently spread across the calendar period and correlation of event study residuals is not likely to be an issue. Eight firms are recommended twice. All of the rest are recommended once. Appendix B lists the date the newsletter recommended closing out each position. In almost all cases,

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<sup>11</sup> Carter et al. (2003) analyze market reactions to announcement of insider trades via Form 4 filings from 1991 through 1994. Under the pre-2001 filing requirements, the insider trade data became public anywhere between a few to 40+ days following the actual trade. Since enforcement of the filing requirement seemed lax at times, the delay until public revelation of the insider activity could often be longer in practice. Carter et al. (2003) document that the longer is the delay between the actual insider transaction and public revelation of the information, the smaller is the magnitude of the announcement period stock return. Instead, the stock market gradually incorporates the information conveyed by the insider transactions during the delay period.

this occurs when the stock hits a trailing sell stop. Close out recommendations exist for 91 of the 127 buy recommendations.<sup>12</sup>

Table 1 provides summary statistics on the firms that were recommended by the newsletter as well as for the Compustat sample as a whole. In our calculations with Compustat data, we restrict our attention to domestic industrial firms with consolidated data and standard data formats.<sup>13</sup> We also exclude firms with total assets of less than \$1 million in order to limit the impact of outliers. With the exception of Total Assets and Total Sales, we winsorize each calculated variable at the 1<sup>st</sup> and 99<sup>th</sup> percentiles that pertain for that particular fiscal year. For the Insider Alert Firms, means and medians of these winsorized values are reported in the table. For the All Compustat values, we first calculate means and medians for each fiscal year. We then form a mirror sample of these means and medians: if the Insider Alert Firm sample has 15 observations in 2001 and 20 observations in 2002, then the mirror sample is formed with 15 Compustat mean and median values for 2001 and 20 Compustat mean and median values for 2002. We then calculate an average of the mean values in the Compustat mirror sample and a median of the median values. By doing this, we remove cyclical economic factors and provide a better comparison for the Insider Alert Firms.

The Insider Alert Firms are of similar size in terms of Total Assets and Total Sales to the overall Compustat sample. If anything, the Insider Alert Firms are larger than the typical Compustat firm. While the insider trading literature almost universally documents

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<sup>12</sup> The newsletter always recommends that its clients place sell stops behind their positions. Typically, these sell stops are set at 15% to 20% below the market price – for higher volatility stocks the sell stop will trail further behind. These sell stops are then periodically moved up for a stock that has been trending upward.

<sup>13</sup> As is stated on the WRDS server, these default screening variables produce one record per GVKEY-Date pair and keep the vast majority of records. Observations that are excluded include financial service firms, non-North American firms, those with restated data, and those with different views of the same data (pro forma, pre-FASB). The actual SAS formulation of these restrictions is `indfmt='INDL'` and `datafmt='STD'` and `popsrc='D'` and `consol='C'`.

that insiders are value-biased contrarian traders, this is not evident in the subset of firms highlighted by the Insider Alert. Indeed, the Insider Alert Firms have lower mean and median Book-to-Market ratios than the overall Compustat sample. T-tests and non-parametric sign rank tests (not reported) both confirm that these differences in Book-to-Market are highly statistically significant. In contrast, mean and median Q ratios and P/E ratios are not statistically significantly different across the two samples.

The remaining two comparison variables are Annual Sales Growth and Leverage. Insider Alert Firms have lower average Annual Sales Growth but greater median Annual Sales Growth. Finally, Insider Alert Firms are substantially more levered than the typical Compustat firm. To summarize, the Insider Alert newsletter seems to focus on intensive insider trading activity in reasonably large firms that cannot be characterized as value firms.

Table 2 provides summary statistics on the insider transactions that brought each firm to the attention of the newsletter. The median Insider Alert highlights the trading activity of 3 insiders. In 44 of the alerts, the CEO is one of the insiders mentioned. In 43 of the alerts, the Chairman of the Board is mentioned.<sup>14</sup> The remainder of Insider Alerts identify Chief Financial Officers (19 observations), Chief Operating Officers (2 observations), Presidents (19 observations), Vice Presidents (24 observations), Directors (67 observations), and Beneficial Owners (12 observations).

The mean (median) total number of shares purchased by the identified insiders is 761,000 (134,000) shares. These transactions represent 1.05% (1.48%) of total outstanding shares and have dollar values of \$13.7 million (\$2.39 million). For the largest

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<sup>14</sup> When a CEO is also Chairman of the Board, we code the associated observation as a CEO observation but not a Chairman observation. Thus, there are actually more than 43 Chairmen represented in the sample.

purchaser in each group, shares purchased and dollar values are 346,000 (20,000) shares and \$8.4 million (\$462 thousand) respectively. The largest transaction in each group represents 0.49% (0.032%) of outstanding shares. Finally, for the 90 Alerts that highlight more than one transaction, the mean (median) days elapsed between the first insider transaction and the last insider transaction is 49 days (3 days).

To assess whether these highlighted insider transactions are abnormally large, we compare them to the universe of insider transactions reported in the Thomson Financial Insider Trading Monitor for the period spanning 2000-2008. Since the Insider Alert transactions are all purchases of common stock, we limit our analysis of the Thomson Financial data to observations where the transaction was a purchase of common stock, but which was not the result of an option exercise. We also eliminate financial firms and regulated utilities as the Insider Alert does not recommend any firms in these sectors. Because the insider filings do not state the total number of shares outstanding, we require that each observation must match via Cusip to a valid monthly CRSP observation. A total of 248,698 insider transactions meet these screening criteria. For each firm, we establish 60 day windows, with the first window commencing with the earliest insider transaction for each Cusip. This arbitrary window length is similar to the 49 day average elapsed time across individual trades in each multi-observation Insider Alert. There are 40,466 windows that contain insider trades. For each window, we calculate Total Shares purchased, Total Shares as a percentage of outstanding shares, etc. We also pick out the largest transaction in each window as a benchmark comparison to the largest trade highlighted in each Insider Alert.

The mean (median) Total Shares purchased in each window is 154,000 (5,000) shares, representing approximately 0.63% (0.03%) of outstanding shares, and having a Total Market Value of \$856 thousand (\$24 thousand). With the exception of Total Shares %, these summary statistics are significantly less than the corresponding values for each Insider Alert. Similarly, the largest transaction in each 60 day window is significantly smaller than the largest transaction in each Insider Alert.<sup>15</sup> Clearly, the Insider Alert is identifying significant insider transactions.

While the Insider Alert is highlighting bigger trade events, the newsletter is still only identifying a fraction of potential big trade events. To quantify this statement, we identify how many 60 day trade windows exist where there is a big insider trade by an individual insider or where there is a group of insiders trading heavily. For individuals trading, there were 4,355 non-overlapping 60 day window where an individual insider purchased more than \$500,000 in shares or more than 0.15% of outstanding shares with a dollar amount of at least \$50,000. There were 897 non-overlapping 60 day windows where either three or more insiders purchased shares and the total dollar amounts were greater than \$1,000,000, or three or more insiders purchased more than \$50,000 in shares each and the total shares accounted for more than 0.25% of outstanding shares.

Eliminating overlaps between the two samples, there were a total of 4,547 60 day windows where there was heavy insider purchasing between 2000 and 2008.<sup>16</sup> The newsletter, however, only identified 127 of the “potential” events. Thus, it is relatively

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<sup>15</sup> The market capitalization of the Insider Alert Firms averages approximately \$12 billion while the market capitalization of the typical firm with insider trades averages approximately \$1.6 billion. This explains why Total Shares % can be similar for Insider Alert Firms and All Insider Transaction firms, but Total Shares and Total Dollar Value can be significantly different.

<sup>16</sup> Our choice of the breakpoints to identify heavy insider trading are loosely related to the median values for percentage of shares purchased and dollar value of largest transaction for the Insider Alert firms. The ensuing results simply give an idea of the frequency of heavy insider stock purchasing events.

selective and is keying on additional information beyond insider buying as evidenced in the sample e-mail newsletter included in the appendix.

#### IV. Short Term Returns

##### A. Newsletter Release:

Our first test is to determine whether the newsletter recommendations generate a significant announcement effect. For this we employ a standard market model event study. Daily risk adjusted abnormal returns are calculated as

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad 1.1.1$$

where:  $R_{it}$  is the return on firm  $i$  at time  $t$ ,  $R_{mt}$  is the corresponding return on the CRSP Value-Weighted or Equal-Weighted Index at time  $t$ , and  $\alpha_i$  and  $\beta_i$  are the market model parameters obtained from an ordinary least squares regression. The market model parameters are calculated using 200 days of trading from T-250 to T-50. The “standardized abnormal return” (SAR) is calculated in accordance with Boehmer et al. (1991):

$$SAR_{it} = AR_{it} / \hat{\sigma}_i \sqrt{1 + \frac{1}{T_i} + \frac{(R_{mt} - \bar{R}_m)^2}{\sum_{t=-250}^{-50} (R_{mt} - \bar{R}_m)^2}} \quad 1.1.2$$

where  $\hat{\sigma}_i$  is security  $i$ 's standard deviation of the market model abnormal return during the estimation period,  $T_i$  is the number of trading days in the estimation period of security  $i$ , and  $\bar{R}_m$  is the average market return during the estimation period. For each day in the event period, the cross-sectional standard deviation of the standardized abnormal return is calculated as:



$$\sigma_{SAR_t} = \sqrt{\frac{\sum_{i=1}^N \left( SAR_{it} - \sum_{i=1}^N SAR_{it} / N \right)^2}{N(N-1)}} \quad 1.1.3$$

The standardized cross-sectional test statistic is therefore:

$$Z = \frac{\sum_{i=1}^N SAR_{it} / N}{\sigma_{SAR_t}} \quad 1.1.4$$

The individual standardized abnormal returns are assumed to be cross-sectionally independent and distributed normally. By the central limit theorem, the distribution of the sample average abnormal returns is normal, even in the presence of event-induced variance (Boehmer et al. (1991)). Event study results are presented in Table 3.

Given the relatively small circulation of the newsletter and the presumption that efficient markets minimize the impact of second hand information, our expectation is that the release of each newsletter alert will have minimal market impact. To our surprise, this is not the case. For the entire sample, the t-1 to t+1 announcement period excess return averages 2.82% and is highly statistically significant with a standardized cross sectional test statistic of 6.54. The t-0 to t+1 excess return is 2.40% with a cross-sectional test statistic of 5.819.<sup>17</sup> Note that the t-1 excess return of 0.42% is statistically significant. It is unclear whether this reflects information leakage or whether newsletter recommendations are typically released after an up day in the stocks that are recommended. This result is not a function of a few outlying observations – 91 of the 125 t-1 to t+1 excess returns are

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<sup>17</sup> We choose t-1 to t+1 as our benchmark announcement period because much of the prior second-hand news literature uses this period. Note that the t-1 excess return of 0.42% is statistically significant. It is unclear whether this reflects information leakage or whether newsletter recommendations are typically released after an up day in the stocks that are recommended.

positive. Non-parametric significance tests such as a sign test or ranksum test (not reported in tables) reflect the breadth of this result and are highly significant.

The announcement period return of 2.82% also seems economically significant. In the most comparable studies, Chang and Suk (1998) and Nixon, Roth and Saproshenko (2008) construct a sample of firms that appeared in the Wall Street Journal's weekly "*Insider Trading Spotlight*" column between 1988-1990 and 1993-1995 respectively. The column highlights the ten largest insider purchase and sales by dollar value, typically with a one week lag. Chang and Suk (1998) document purchase event announcement period excess returns of 0.81% for the t-1 to t+2 period surrounding the Journal's publication date while Nixon, Roth and Saproshenko (2008) find t-1 to t+1 excess returns of 2.41%.

Our announcement period excess returns are of the same magnitude as those documented by Nixon et al. (2008), and more than three times greater than those documented by Chang and Suk (1998). We find this surprising as the underlying Form 4 filings are much easier for investors to access today than they were for investors in the earlier time periods of the existing literature. Moreover, the newsletter that we are analyzing has an exceedingly small number of subscribers relative to the subscription base of the Wall Street Journal.<sup>18</sup>

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<sup>18</sup> Our announcement period excess returns are of similar magnitude to results documented in many other existing studies of "*second-hand*" news published in high visibility outlets. Note that in all of these studies, the second hand news is semi-private information that is rereleased in a public venue. Event study results for analyst buy recommendations highlighted in the Wall Street Journal's "*Dartboard*" column are as follows: Barber and Loeffler (1993) 4.06% for t=0 to t+1; Metcalf and Malkiel (1994) 3.0% for t=0 to t+1; Griffin, Jones and Zmijewski (1995) 1.10% for t+1, Albert and Smaby (1996) 3.92% for t=0 to t+1; Beltz and Jennings (1997) 0.52% for t+1; Liang (1999) 3.52% for t=0 to t+1. Pruitt, Van Ness and Van Ness (2000) 3.66% for t=0. Event study results for rumor-based buy recommendation in the Wall Street Journal's "*Heard on the Street*" column: Lloyd-Davies and Canes (1978) 1.12% for t=0 to t+1; Liu, Smith and Syed (1990) 1.90% for t=0 to t+1; Beneish (1991) 1.32% for t=0 to t+1. For the rumors and analyst opinions in Business Week's "*Inside Wall Street*" column, event study results are as follows: Mathur and

The newsletter characterizes each event as an accumulation by a notable insider or as a buying cluster made by several insiders. Most of the impact seems to be coming from the buying clusters. For the 78 observations that are characterized as a buying cluster, the t-1 to t+1 announcement period return is 3.79% with standardized cross sectional test statistics of 6.70 (results not presented in tables). For the 44 accumulation events, the announcement period return is a much more modest 0.76%. For this subset, the test statistic is significant at the ten percent level. Finally, there are two observations characterized as purchases preceding an impending buyout. The announcement period return for these observations is 6.56%, but is not statistically significantly different from zero due to the small number of observations.

For many event studies, the announcement effect dissipates rapidly over time. For the Insider Alerts, the announcement period excess returns dissipate, but at a relatively slow pace. Figure 1 plots the cumulative abnormal excess return from t=0 to t+1, t+2, t+3, out to t+30 trading days. As can be seen from the figure, the cumulative abnormal excess return stays above 2% until t+12 trading days. These values are statistically significantly greater than zero at the 5% level out to t+12 as well. Cumulative excess returns gradually decline to 0.08% by t+30. None of the cumulative excess returns in the 30 trading days leading up to t-1 are statistically significantly different from zero. To summarize, there is some evidence that the announcement period excess return is due to price pressure. However, if price pressure was the sole explanation, we would expect a much more rapid decline.

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Waheed (1995) 2.35% for t-1 to t+2; For analyst buy recommendations broadcast on the weekly PBS television show “*Wall Street Week*”, event study results are as follows: Pari (1987) 0.66% for t+1; Griffin, Jones and Zmijewski (1995) 1.10% for t+1; Ferreira and Smith (2003) 0.65% for t+1; Beltz and Jennings (1997) 0.52% for t+1.

As an additional test, we conduct a volume event study using the same estimation period as was utilized previously.<sup>19</sup> Since our event period for the returns analysis was three days, we report excess volume for a set of consecutive three day periods that include the t-1 to t+1 period. Results are reported in Table 4. Excess volume is high across every three day period from t-28 to t+28. However, there is a clear pattern where mean cumulative excess relative volume peaks at 144.3% during the t-1 to t+1 event period. This value is highly statistically significant with a standardized cross-sectional test statistic of 9.851. Moreover, excess relative volume is greatest on day t=0 at 65.69% (not reported separately in table). On both sides of the event window, excess relative volume declines almost monotonically. These results are consistent in pattern and are slightly larger in magnitude to excess volume documented in many of the prior studies on the effect of second-hand news such as Liu, Smith and Syed (1990), Barber and Loeffler (1993), Albert and Smaby (1996), Chang and Suk (1998), Mathur and Waheed (1995), Sarkar and Jordan (2000), and Neumann and Kenny (2007).

### **B: Alternative Explanations of Newsletter Release Announcement Effects**

The volume results suggest that the significant announcement period returns represent real information based trading and are not spurious.<sup>20</sup> The magnitudes of the excess returns and volume, however, are somewhat surprising given the relatively small number of subscribers to the newsletter. We think, however, that this might represent a snowball

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<sup>19</sup> We follow the methodology of Ajinkya and Jain (1989) for the volume event study, regressing daily log turnover for each sample firm on average log turnover for the market to estimate an  $\alpha$  and a  $\beta$ . These coefficient estimates are then used to generate predicted values and residuals during the event period. Statistical significance of average cumulative excess log turnover is then calculated using the standardized cross sectional test statistic of Boehmer et al. (1991) as recommended by Karafiath (2009).

<sup>20</sup> A variety of theoretical and empirical papers suggest that trading volume increases when asymmetric information increases amongst investors, perhaps because of a release of non-public information like that produced by newsletter releases. For examples, see Kim and Verrecchia (1991, 1994) or He and Wang (1995).

effect. Barber and Odean (2007) show that individual investors are subject to the attention affect proposed by Merton (1987). Specifically, individual investors are much more likely than institutional investors to buy attention grabbing stocks that have large positive or negative returns, large daily trading volume relative to long-term average trading volume, and that are mentioned in the news. Thus, additional individual investors may be picking up the initial signals of positive announcement period return coupled with higher than normal volume and piling in. We cannot, however, rule out the possibility that the newsletter is partly basing its stock recommendations on increasing volume.

Separating daily trading volume into institutional block trades and retail trades is difficult, particularly as we do not have access to TAQ data. We do, however, have access to Thomson Reuters Institutional 13f Holdings data. The quarterly holdings of institutions with more than \$100 million under management provide us with a coarse indication of changes in institutional ownership for our sample firms. We identify all 13f filings that pertain to our sample firms and keep the calendar quarters when each sample firm was recommended by the newsletter as well as the preceding four quarters. For each sample firm quarter, we sum institutional holdings and the absolute value of changes in holdings from the prior quarter (a proxy for institutional turnover.) We also calculate averages of these variables for each sample firm for the four quarters prior to the event quarter.

On average, institutions own 64.8% of sample firms at the end of the event quarters (not reported in tables.) This average is a statistically insignificant 0.74% less than the average from the previous four quarters. Thus institutions do not seem to be increasing their holdings in our sample firms subsequent to the newsletter announcements.

Moreover, the institutional turnover for our sample firms does not differ appreciably from the prior four quarters – the sum of absolute values of percentage changes in holdings from the prior quarter is 27.45% and is only 2.07% greater than the average of this value from the prior four quarters. This difference of 2.07% is not statistically significantly different from zero.

As noted, 13F data produces crude figures because of the coarseness of the institutional holdings data. While we cannot conclusively rule out the existence of significant institutional trading within the quarter that contains the newsletter announcement, our results suggest that the increase in volume as well as the positive announcement period returns are not driven by institutional investors. Rather, this is more likely a retail investor phenomenon.

We also investigate whether the release of the newsletter is correlated with unrelated events that might account for the magnitude of the return and volume reactions. Specifically, we search the Thomson Research Investech database and count the number of analyst reports for each sample firm in the sixty days surrounding the newsletter recommendation. We also count the number of analyst reports for the same sixty day periods from the prior and subsequent years. Our sample firms average 16.3 analyst reports in the sixty day period surrounding the recommendation (results not presented in tables.) The average for the combined prior and subsequent year periods is 15.60. The t-statistic for a paired two sample means test is an insignificant 0.701.

If correlated events exclusive of the newsletter release are driving the observed announcement period returns, one would expect additional analyst reports that discuss

those events. Based on a simple count of analyst reports, the “other events” hypothesis does not seem valid.

### **C. Preceding Form 4 Filing**

Newsletter releases clearly have a short-term impact on stock returns of the highlighted companies. It is an open question, however, whether the preceding Form 4 filings also have a discernible effect on stock returns. As Form 4 filings are exceedingly common, one possibility is that investors succumb to information overload and fail to take note of important insider transactions. Prior research, however (e.g, Givoly and Palmon (1985), Aboody and Lev (2000) and Brochet (2009)), suggests that the market will react to insider filings, particularly because regulations in place since June 2002, require insiders to electronically file Form 4's by the close of business on the trading day following the actual trade. To assess the market's response to the underlying Form 4 filing, we collect Form 4 filings that precede each Newsletter Alert.

The Newsletter Alerts do not follow a standardized reporting process. Most alerts list the insiders involved in substantial trades, the number of shares purchased, and the dates of the actual transactions. Some however, state that a particular insider accumulated a specified quantity of shares over a time range, e.g. from April through July, 2006. Finally, a handful of alerts state that a particular number of insiders (not listed by name) accumulated shares over a time range. Because of this, it is difficult to identify the specific insider filings that triggered the Insider Alert.

Rather than relying on the alert for the underlying Form 4 filings, we search the Thomson Financial Insider Trading Monitor for Form 4 filings for each highlighted firm for the 60 day window preceding each Insider Alert. To avoid capturing the

announcement effect associated with the release of the associated Insider Alert, our 60 day windows terminate 3 days prior to the release date of the alert. For each firm-day, we sum up the transaction amounts. Thus, if there were three insider transactions for 1,000, 5,000 and 10,000 shares for firm XYZ on the 20<sup>th</sup> of September, we combine these observations into one purchase observation for 16,000 shares. We discard all but the heaviest insider volume days for each firm-window. If the Insider Alert identified three separate insiders trading on three separate days, we keep the three heaviest insider trading days. Similarly, if the Insider Alert identified only one insider, we keep only the single heaviest insider trading days. Note that some Insider Alerts specify that a particular group of insiders has been accumulating shares over a particular period. Our collection method for the underlying Form 4 filings will likely under-count the germane insider transactions for these accumulation events. Our collection method also limits the length of the window to 60 days. In some cases, the accumulation of shares occurred over a much longer period.

Our collection of underlying Form 4 filings generates a sample of 142 firm-days with heavy insider trading volume. We replicate the event study methodology used in analyzing the release dates of the Insider Alerts to assess how the primary release of insider trading information compares to the secondary release provided by each alert. Results are presented in Table 5.

Using the transaction dates as the event date, the t-1 to t+1 cumulative excess return averages 1.68% and is significant at the one percent level using the Standardized Cross-Section Test Statistic. Non-parametric tests are also significant at the one percent level. Since there is typically a slight delay between the transaction and the associated Form 4



filing, we replicate the transaction date results while utilizing the actual filing dates. These results are even more dramatic. Here, the t-1 to t+1 cumulative excess return is 3.29% and is again significant at the one percent level.

Brochet (2009) does a similar analysis for all filings of insider trades. His population based results for the post 2002 sample document a 1.89% abnormal return for the t-0 to t+2 period. The event study methodology employed by Brochet (2009) differs slightly from ours. Nevertheless, it appears that the newsletter is highlighting the more noteworthy insider trading events. Given this, we are somewhat surprised by our earlier results documenting an announcement effect associated with the newsletter as the underlying events appeared to attract significant attention when the initial Form 4 filings were made.

#### **D. Sell Recommendations**

As discussed earlier, the newsletter recommends placing trailing sell stops behind each position. When these sell stop points are reached, the newsletter incorporates a recommendation to close out the associated position. Note that these sell recommendations are not issued independently. Instead, they are incorporated in newsletters editions that usually include at least one buy recommendation. Because of this, the sell recommendations typically occur several days after the previously established stopping point was breached. Thus, the sell recommendations are pseudo-independent events.

We replicate our event study methodology for the 90 sell recommendations that have adequate stock market data – one observation is dropped (results not presented in tables.) For the t=0 to t+1 announcement period, abnormal returns average -1.38%. The

standardized cross sectional test statistic is 2.161 and is significant at the five percent level. Slightly less than 65% of the abnormal returns are negative and the non-parametric rank-sum test is 3.089, also significant at the five percent level.

Because the sell recommendations are triggered by a drop in stock price, it is not surprising that abnormal returns for the t-6 to t-5, t-4 to t-3 and t-2 to t-1 are all negative.<sup>21</sup> The negative values for the actual sell announcement period returns, however, would appear to be solid evidence that it is the newsletter instigating the price perturbations associated with buy recommendations and not some other mechanism. In the case of the sell recommendations, these are investors who already hold the stock – in this case the newsletter subscribers - that can easily take advantage of the recommendations.

## **V. Long Term Returns**

While not a primary focus of our analysis, the item of greatest interest to subscribers of newsletters and other investment advisory services is probably how well the stock recommendations perform longer term. For each recommended stock, we calculate 6, 12, 18, 24, 30 and 36 month buy-and-hold returns. Excess returns are calculated relative to portfolios matched on the basis of size and book-to-market and to individual firms matched on the basis of size and book-to-market.

We first describe the matched portfolio technique. Since individual security excess returns relative to almost any portfolio are notoriously ill-behaved, we calculate statistical significance using a standard bootstrapping procedure (Lyon, Barber and Tsai (1999)). We start by calculating the stock market capitalization (total shares outstanding times

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<sup>21</sup> The t=0 to t=1 announcement period returns do not appear to be driven by a momentum effect. We have estimated a Fama-French two factor model with the addition of a momentum factor and there is no appreciable difference from the standard event study results that we report.

price per share) as of June for every domestic common stock listed in the CRSP monthly database. We follow standard practice and restrict the bootstrapping sample to firms with a share code of 10 or 11, thereby excluding REITs, ADRs, Closed-End Funds, and companies incorporated outside the United States. To maintain sample size, however, we retain the 8 insider alert firms that do not have share codes of 10 or 11. We then sort each firm-year into 10 portfolios using size decile breakpoints defined exclusively by firms listed on the NYSE. The smallest size decile is then further subdivided into four equal quartiles since using NYSE breakpoints in the first step allocates a very large number of smaller firms listed on the NASDAQ to the smallest size decile.

We then merge each June firm-year with a valid size calculation with the prior fiscal year observation in COMPUSTAT. We follow Daniels and Titman (2006) in calculating book values of equity. Firms with negative book equity values are dropped from the bootstrapping sample at this point. Again, to maintain sample size, we retain the 6 insider alert firms that have negative book equity. Each of the thirteen yearly size portfolios is then split into five book-to-market quintiles. The Insider Alert firms with negative book equity are each assigned to the middle quintile in their size portfolio. The result is 65 portfolios per year, stratified by size and book-to-market.

Each cohort of 65 portfolios is established at the end of June. For every portfolio, we calculate 12 sets of 6, 12, 18, 24, 30, and 36 month equal-weighted cumulative buy-and-hold returns. The first set commences in July of the appropriate year, the second set commences in August, etc. We start by assuming that \$1 is invested in each firm that comprises a portfolio. Whenever a firm delists, the dollar value accumulated in that firm is split equally among the remaining firms in the portfolio. For many portfolios, we are

unable to calculate the full set of monthly returns since the start dates for many calculations are less than 36 months away from the December 31<sup>st</sup>, 2009 end date of our CRSP return data.

Cumulative buy-and-hold excess returns for each firm identified by an Insider Alert are then calculated relative to the appropriate portfolio buy-and-hold return that commences at the start of the month immediately preceding the Insider Alert. Thus, if an Insider Alert is released on 15 September, we compare the return of the identified firm to the cumulative buy-and-hold return starting from September 1<sup>st</sup> for the appropriate size and book-to-market portfolio. For the Insider Alert firms, the first month return is calculated using daily returns. For the days of the first month that precede the alert release date, we fill in using the portfolio's equal-weighted daily return.

Summary statistics for cumulative buy-and-hold returns as well as excess returns relative to the appropriate size and book-to-market portfolio are reported in Table 6. As noted earlier, statistical significance is calculated via a bootstrapping procedure. For each month where there is an insider alert, we calculate the 6, 12, 18, 24, 30, and 36 month cumulative buy-and-hold returns and excess returns for each security in the 65 separate size and book-to-market portfolios. We then go through 10,000 repetitions where we form a portfolio of randomly selected firms, imposing the same calendar distribution seen in the Insider Alert sample. Thus, if two firms were highlighted in separate Insider Alerts released in March 2003, each bootstrap portfolio will have two firms randomly selected from the data for that particular month.

We are able to calculate 6 month buy-and-hold returns for 125 of the 127 Insider Alert firms. One missing firm was traded on the OTC Bulletin Board and the other was

acquired and subsequently delisted after four months. The mean cumulative annual returns at the 1, 2, and 3 year windows are 10.4%, 43.6%, and 61.5%. Since our window spans a period of rising then sharply falling stock prices, excess returns are much more relevant for our purposes than raw cumulative returns.

Mean excess returns relative to size and book-to-market matched portfolios are greater than zero at every horizon, ranging from 3.10% at the six month horizon to 20.86% at the 36 month horizon.<sup>22</sup> Median excess returns, however, are much closer to zero at each horizon. The skewness evident in the mean and median excess returns mirror results generated in the bootstrapping process. For example, at the 24 month horizon, the mean (median) excess return for the 10,000 randomly selected portfolios of 120 calendar matched firms is 1.34% (-10.80%). Because of this, statistical significance must be identified via the bootstrapping process, not via standard parametric test statistics.

The mean cumulative excess return for the Insider Alert firms at the 18 and 24 month horizons fall in the 90<sup>th</sup> percentile or higher. For the remaining four horizons, mean cumulative excess returns fall above the 80<sup>th</sup> percentile. For median excess returns, results are more statistically significant. For four of the six horizons, median excess returns are in the 95<sup>th</sup> percentile for the bootstrap distribution or better. Thus, it certainly seems that the Insider Alert portfolio does not underperform size and book-to-market matched portfolios. Instead, there is at least moderate evidence that the Insider Alert portfolio outperforms size and book-to-market matched portfolios.<sup>23,24</sup>

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<sup>22</sup> Note that these are not portfolio excess returns. It is the average return of each security still alive at the end of that window relative to its size and book-to-market portfolio. If an Insider Alert firm exits the sample in the 25<sup>th</sup> event-time month, its returns up through the 24<sup>th</sup> month will not be represented in the 30 or 36 month cumulative or excess return calculations.

<sup>23</sup> When we restrict the Insider Alert sample to firms with a share code of 10 or 11 and with positive book equity, results are somewhat stronger with all median values in the 95<sup>th</sup> percentile and three of the five mean values in the 90<sup>th</sup> percentile or above.

Matching with individual firms is done as a robustness check. We follow the same process in calculating size and book-to-market ratios with the exception that we do not throw out matching firms with negative book equity. Rather than matching on size first and then on book-to-market, we rank potential matches for each sample firm from 1 to n based on similarity in size and similarity in book-to-market. We then square each rank and sum the two values, selecting the matching firm with the lowest sum. If a matching firm is delisted prior to the sample firm, we splice in returns for the next closest match from the original matching process. Matching firms are only used once.

Cumulative excess returns with this process are similar to those generated via the bootstrapping process. Statistical significance (via a t-statistic for means and via a sign test for medians) are similar as well: the 18 and 24 month mean excess returns are significant at the five percent level as are the 12, 18, and 24 month median excess return.

## **VI. Conclusion**

We analyze a set of buy recommendations made by an investment newsletter that focuses on episodes of intensive insider buying. These buy recommendations are second hand news in that the Form 4 filings documenting the insider purchases are publicly available on the SEC's website. Consistent with prior research using other sources of second hand information, we find that firms identified by the newsletter experience positive and statistically significant announcement period returns. Our average t-1 to t+1 return of 2.82%, however, is significantly greater than the announcement return found in most other studies, despite the fact that other studies of second hand news are typically

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<sup>24</sup> Nixon, Roth and Saporoschenko (2008) measure 1, 2 and 3 year buy-and-hold excess returns relative to matched firms for a small sample of 38 firms listed in the Wall Street Journal's "*Insider Trading Spotlight*" column. In contrast to our results, they document negative excess returns of -13.6%, -18.4% and -36.7%. Due to small sample size, only the last value is statistically significant and only at the 10% level.

focusing on much more widely circulated news sources such as the Wall Street Journal or Business Week. The impact of the second hand news is also greatest when multiple insiders are buying significant blocks of shares.

Trading volume also increases substantially and peaks around the newsletter announcement. The magnitude of this volume increase is surprising and raises the question of whether the newsletter recommendations are driving results or are simply correlated with other more important events. Three pieces of evidence suggest that this is not the case. First, there is no increase in the number of analyst reports in the 60 days that include the newsletter recommendations. Second, there is no evidence of significant changes in institutional holdings or trading for the calendar quarter than includes the newsletter recommendation. Finally, there is a perceptible negative announcement effect when the newsletter recommends closing out previously recommended positions. None of these pieces of evidence are entirely conclusive. However, as a group, they suggest that the stock market reaction to the newsletter recommendations is a retail trader driven phenomenon.

Finally, we find that the stocks identified by the newsletter outperform size and book-to-market based benchmarks over horizons out to 36 months. Thus, the insiders making the purchases on which the newsletter recommendations are based seem to be profiting from private information. More importantly, subscribers to the newsletter are able to implement profitable trading strategies based on the second hand information. These results highlight the informational importance of large insider trades, particularly those not driven by portfolio rebalancing concerns.

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**Table 1: Financial Summary Statistics**

Means (medians) are reported for the 125 Insider Alert recommended firms with valid Compustat data in the fiscal year prior to the recommendation. With the exception of Total Assets and Total Sales, all variables are winsorized at the 1<sup>st</sup> and 99<sup>th</sup> percentiles using all qualifying Compustat observations for that particular fiscal year. To form the All Compustat sample, we calculate means and medians for each winsorized variable for each fiscal year using all qualifying Compustat Observations. We then weight these values to mirror the calendar distribution of the Insider Alert sample. Variable calculations are described in the appendix.

	<i>Insider Alert Firms</i>	<i>All Compustat</i>
Total Assets	\$5.93 bn (\$1.87 bn)	\$7.94 bn (\$2.65 bn)
Total Sales	\$4.70 bn (\$1.21 bn)	\$2.29 bn (\$1.25 bn)
Book-to-Market	0.46 (0.39)	0.65 (0.49)
Q Ratio	2.15 (1.52)	2.21 (1.47)
P/E Ratio	30.57 (18.26)	24.74 (18.09)
Annual Sales Growth	14.0% (14.1%)	24.7% (11.4%)
Leverage	34.0% (33.9%)	25.0% (16.6%)

**Table 2: Alert Characteristics**

Mean (median) values are reported in each cell. *Number of Insiders* is the number of different individuals identified in each Insider Alert. *Total Shares* is the number of shares bought by identified insiders. *Total Shares %* is the percentage of outstanding shares represented by *Total Shares*. *Total Dollar Value* is *Total Shares* times price per share. For the *All Insider Transactions* column, we establish 60 day windows that begin with the first insider transaction reported for each Cusip in the Thomson Financial Insider Trading Monitor between 2000 until 2008. Summary statistics for the sum of *Total Shares*, *Total Shares %*, and *Total Dollar Value* across all 60 day windows for each Cusip are reported. *Largest Transaction Shares*, *Largest Transaction Shares%*, and *Largest Transaction Dollar Value* are calculated as described earlier, but only for the largest transaction in each Insider Alert or *All Insider Transactions* 60 day window. *Time Spread* is the elapsed time in days between the first highlighted transaction and the last highlighted transaction in each alert. *Release Delay* is elapsed time in delay between the last transaction highlighted by the alert and the fax date of the alert.

	<i>Insider Alert Firms</i>	<i>All Insider Transactions</i>
Number of Insiders	2.97 (3)	
Total Shares	761,318 (133,808)	154,221 (5,000)
Total Shares %	1.0471% (0.1478%)	0.6309% (0.0291%)
Total Dollar Value	\$13,700,000 (\$2,392,000)	\$1,478,396 (\$42,617)
Largest Transaction Shares	345,751 (20,000)	82,954 (2,500)
Largest Transaction Shares %	0.4933% (0.0320%)	0.3583% (0.0168%)
Largest Transaction: Dollar Value	\$8,490,691 (\$462,080)	\$856,289 (\$24,360)
Time Spread	49 days (3 days)	
Release Delay	20 days (14 days)	

**Table 3, Announcement Period Returns – Alert Release Date**

Announcement period returns for t-1 to t+1 are calculated with a standard market model with estimation period from t-250 to t-50. Significance statistics (in parentheses) are based on the standardized cross-sectional test statistic of Boehmer et al. (1991). The first block includes all observations. Blocks 2-4 subset the observations into those that were characterized by the newsletter as a significant accumulation of shares by a prominent insider, those where multiple insiders were buying in a discernible cluster, and those where insider buying was the result of an impending privatization or management buyout. Significance at the 10, 5, and 1 percent levels (two-tail test) are denoted by \*, \*\*, and \*\*\*.

	<i>n</i>	<i>CAR</i>
All	125	2.82% (6.536)***
Accumulation	44	0.76% (2.280)*
Cluster	78	3.79% (6.698)***
Buyout	2	6.56% (0.752)

**Table 4: Announcement Period Volume – Alert Release Date**

Cumulative Abnormal Relative Volume is calculated with a market model where log(turnover) for each individual stock is regressed on equal-weighted average log(turnover) for the market index during an estimation period from t-250 to t-50. Residuals for each event period are generated using standard returns event study methodology. Significance statistics (in parentheses) are based on the standardized cross-sectional test statistic of Boehmer et al. (1991). Event periods are t-28 to t-26, t-25 to t-23, etc. Significance at the 10, 5, and 1 percent levels (two-tail test) are denoted by \*, \*\*, and \*\*\*.

<i>Period</i>	<i>Mean Cumulative Abnormal Relative Volume</i>	<i>Standardized Cross Sectional Test Stat</i>
(-28, -26)	50.37%	3.10**
(-25, -23)	46.66%	3.05**
(-22, -20)	54.54%	3.43***
(-19, -17)	60.86%	3.62***
(-16, -14)	89.57%	5.27***
(-13, -11)	75.21%	4.65***
(-10, -8)	95.37%	5.80***
(-7, -5)	103.18%	6.29***
(-4,-2)	117.92%	7.43***
(-1, +1)	148.93%	10.3***
(2, 4)	108.77%	7.02***
(5,7)	74.29%	5.28***
(8, 10)	55.48%	3.61***
(11, 13)	52.89%	3.27**
(14, 16)	48.52%	3.29***
(17,19)	47.21%	3.07**
(20, 22)	48.47%	3.12**
(23, 25)	59.86%	3.86***
(26, 28)	54.80%	3.29**

**Table 5: Announcement Period Returns – Form 4 Filing**

Announcement period returns for t-1 to t+1 are calculated with a standard market model with estimation period from t-250 to t-50. Significance statistics (in parentheses) are based on the standardized cross-sectional test statistic of Boehmer et al. (1991). The first block includes all observations. Significance at the 10, 5, and 1 percent levels (two-tail test) are denoted by \*, \*\*, and \*\*\*.

	<i>n</i>	<i>CAR</i>
Transaction Dates	142	1.68% (3.561)***
SEC Filing Dates	123	3.29% (5.428)***

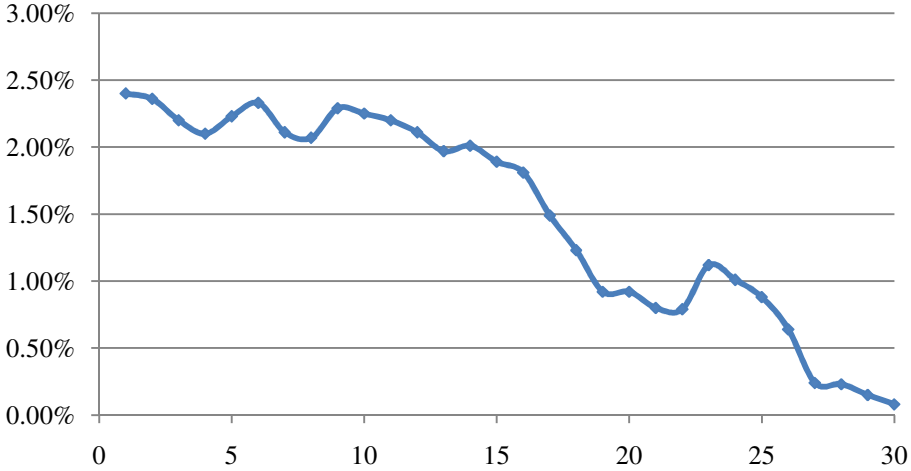


**Table 6: Long-Term Excess Returns**

Mean (median) buy-and-hold returns are calculated for each individual stock over 6, 12, 18, 24, 30, and 36 month horizons. Excess returns are calculated relative to equal-weighted returns for size and book-to-market matched portfolios of firms over the same time horizons and relative to size and book-to-market matched individual firms. For the portfolio matching, statistical significance of cumulative excess returns is reported in the Percentile column. Significance is calculated via a boot-strapping procedure with 10,000 repetitions where cumulative excess returns for random portfolios of 120 firms are calculated. The mean and median cumulative excess returns for the sample firm portfolio are then compared to the percentiles of the empirical distribution generated by the bootstrapping process. For the individual firm matching, statistical significance is reported in the P-value column. Significance is calculated using a t-statistic for mean excess returns and a sign test for median excess returns.

	<i>Boot Strapping</i>			<i>Matching Firm</i>		
	<i>n</i>	<i>Cumulative Return</i>	<i>Cumulative Excess Return</i>	<i>Percentile</i>	<i>Cumulative Excess Return</i>	<i>P-Value</i>
6 months	125	4.23% (3.30%)	3.10% (1.46%)	85 (95)	1.76% (1.79%)	0.535 (0.371)
12 months	111	10.39% (8.95%)	3.86% (2.33%)	76 (96)	5.30% (6.77%)	0.228 (0.036)
18 months	95	30.06% (20.92%)	13.43% (3.06%)	93 (97)	15.56% (13.65%)	0.038 (0.001)
24 months	86	43.56% (38.02%)	19.11% (3.79%)	92 (98)	20.85% (19.72%)	0.046 (0.066)
30 months	75	47.02% (29.85%)	16.75% (-0.04%)	85 (93)	13.92% (13.87%)	0.272 (0.248)
36 months	65	61.50% (38.97%)	20.86% (-2.61%)	83 (88)	9.83% (4.61%)	0.613 (0.620)

**Figure 1: Cumulative Excess Return to t+30**



## Appendix A: Sample Insider Alert

You are receiving this email as a part of your subscription to The Insider Alert. Should you have any questions or wish to change your e-mail settings, please reference the contact information at the bottom of this e-mail.



<b>The Monday, By</b>	<b>Alexander</b>	<b>March</b>	<b>Insider Green,</b>	<b>3, Investment</b>	<b>Alert 2008 Director</b>
<b>Email</b>			-		<b>#340</b>

### **\*\* Telltale Buying at Equinix**

The market fell hard Friday on news of flat consumer spending and continuing problems in the mortgage market.

And it stumbled again this morning. As a result, we have hit our sell stop on **Barnes & Noble** (NYSE: BKS).

However, some insiders are using the recent downdraft to pick up shares while they're cheap. That's certainly the case at **Equinix** (Nasdaq: EQIX).

Last week, the single biggest insider transaction filed with the SEC was Director Michael Stark's investment of more than \$16.2 million. But he isn't the only insider who's grown fond of the stock lately.

Director Scott Kriens invested \$3.98 million last week, too. And Director Christopher Paisley invested \$358,000.

Based in Foster City, CA, Equinix bills itself as "the world's leading provider of network-neutral data center and interconnections services." In essence, it helps provide reliability, scalability and security for mission-critical technology at many of the world's biggest companies.

It offers direct interconnection to the largest aggregation of networks in the industry. Just a small sampling of companies using Equinix for their core Internet infrastructure include AT&T, China Telecom, Time Warner, Sprint, Verizon and Comcast.

And although Equinix finished 2007 up 34%, the stock has taken quite a tumble lately. In November, the stock was trading north of \$110. Today, it sells for less than \$70.

What happened? In the fourth quarter, the company swung to a loss as operating expenses more than doubled.

However, this is not as bad as it looks at first blush. \$103 million of its \$121 million in capital expenditures went to expand operations in Amsterdam, Frankfurt, Hong Kong, London, Paris, Singapore, Sydney, and Tokyo, as well as in the U.S. market.

Moreover, sales are still in a strong uptrend. Revenue jumped 74% to \$138.7 million. And the company upped its guidance for 2008, as well.

Yes, the company reported a big miss a couple of weeks ago. But with overseas sales increasing, revenue in a sharp uptrend, the stock down and insiders backing up the truck, I like the outlook going forward.

**\*\*\*Action to Take\*\*\***

Buy **Equinix** (Nasdaq: EQIX) at \$70 or better. And place a sell stop at \$55 for protection. Speculators may want to take a look at the June \$80 calls (FQS-FP). But don't pay more than \$4.

If you have any questions, feel free to call one of our VIP Trading Services representatives at 888.570.9830 (toll-free) or e-mail: [viptrader@oxfordclub.com](mailto:viptrader@oxfordclub.com), or call Pillar One Advisor Rick Pfiefer at 800.438.3040 or 407.667.4729

Stock	Symbol	Current Price	Comments
Equinix	(Nasdaq: EQIX)	<b>New</b>	<b>Buy at \$70 or better. Place sell stop at \$55.</b>
McMoRan Exploration	(NYSE: MMR)	\$17.43	Buy. Sell stop is \$13.50.
Barnes & Noble	(NYSE: BKS)	<b>Sell</b>	<b>Stock hit sell stop.</b>
Parker-Hannifin	(NYSE: PH)	\$66.08	Buy. Sell stop is \$61.
Burlington Northern	(NYSE: BNI)	\$90.93	Buy. Sell stop is \$83.

All Insider Alert recommendations will be posted on The Oxford Club's web site. Simply go to <http://www.oxfordclub.com> and click on "The Insider Alert."

Your \_\_\_\_\_ username \_\_\_\_\_ is:  
 Your password is:

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Bio: Alexander Green is the Investment Director of The Oxford Club. A Wall Street veteran, he has over 16 years experience as a research analyst, investment advisor, and professional portfolio manager. Under his direction, The Oxford Club's portfolios have beaten the Wilshire 5000 Index by a margin of more than 3-to-1. The Oxford Club Communique, whose portfolio he directs, is ranked third in the nation for risk-adjusted returns over the past five years by the independent Hulbert Financial Digest. Mr. Green has written for Louis Rukeyser and several other leading financial publications. He has been featured on "The O'Reilly Factor," and has been profiled in Forbes, Kiplinger's Personal Finance, and Marketwatch.com. He is also Chairman of Investment U, an internet-based research service with over 300,000 readers. He currently writes and directs the twice-weekly Oxford Insight e-letter and three elite trading services: The Momentum Alert, The Insider Alert and The ADR Alert. Mr. Green is also a top-rated speaker at financial conferences around the world.

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## Appendix B: Companies Identified in Insider Alerts.

Alert Issue Date is the date the alert was faxed to subscribers. Each alert highlights one company, listed in the Highlighted Company column. The exchange on which the firm trades is given in the Exchange column. Insider Buying Patterns are characterized by the newsletter as Buying Clusters – where a number of different insiders have bought shares, Accumulation – where an individual is purchasing large blocks of shares, either in an individual transaction or gradually over time, and Buyouts where insiders are in the process of buying out all publicly traded shares. Sell Date is the date on which the newsletter recommended closing out positions in previously recommended stocks. Sell Reason gives the rationale for recommending closing each position.

Alert Issue Date	Highlighted Company	Exchange	Insider Buying Pattern	Sell Date	Sell Reason
12/10/2001	Western Wireless	NASDAQ	Buying clusters	1/8/2002	Trail Stop
12/18/2001	New York Community Bancorp	NASDAQ	Buying clusters		
1/2/2002	US Oncology	NASDAQ	Buyout	5/30/2002	Trail Stop
1/14/2002	Bio-Reference Labs	NASDAQ	Buying clusters	4/23/2002	Trail Stop
3/11/2002	Rite Aid	NYSE	Buying clusters	4/26/2002	Trail Stop
4/15/2002	Capitol Bancorp Limited	NASDAQ	Buying clusters	6/10/2002	Trail Stop
5/2/2002	Omega Healthcare Investors	NYSE	Buying clusters	7/2/2002	Trail Stop
9/4/2002	Agilent Technologies	NYSE	Buying clusters	1/27/2003	Trail Stop
9/30/2002	Corvis	NASDAQ	Accumulation	12/4/2002	Trail Stop
11/18/2002	Xerox	NYSE	Buying clusters	6/23/2003	Trail Stop
1/22/2003	Kimberly Clark	NYSE	Buying clusters		
2/3/2003	Activision	NASDAQ	Buying clusters	5/19/2003	Trail Stop
3/3/2003	Proquest	NYSE	Buying clusters	6/30/2003	Trail Stop
4/30/2003	Martek Biosciences	NASDAQ	Buying clusters	2/23/2005	Trail Stop
5/19/2003	Corrections Corp	NYSE	Buying clusters		
6/4/2003	Waste Management	NYSE	Accumulation		
3/27/2003	Province Healthcare	NYSE	Buying clusters	6/9/2003	Trail Stop
4/11/2003	Chiquita Brands International	NYSE	Buying clusters	6/16/2003	Trail Stop
6/16/2003	Boston Scientific	NYSE	Accumulation		
6/30/2003	Manufactured Home Communities	NYSE	Accumulation	10/27/2003	Trail Stop
7/16/2003	Chesapeake Energy	NYSE	Buying clusters	1/26/2004	Trail Stop
7/28/2003	Provident Financial Services	NYSE	Buying clusters	1/6/2004	Trail Stop
8/11/2003	Cardinal Health	NYSE	Buying clusters	5/19/2004	Trail Stop
8/11/2003	Gillette	NYSE	Buying clusters		
10/27/2003	Knight Trading	NYSE	Buying clusters	1/26/2004	Trail Stop
11/13/2003	Key Energy	NYSE	Buying clusters	2/9/2004	Trail Stop
12/1/2003	Barnes Group	NYSE	Buying clusters	2/23/2004	Trail Stop
12/31/2003	Pep Boys	NYSE	Buying clusters	3/15/2004	Trail Stop
1/21/2004	Equity One	NYSE	Buying clusters		
2/3/2004	Stoneridge	NYSE	Accumulation	7/28/2004	Trail Stop
2/17/2004	Tesoro	NYSE	Accumulation		
3/2/2004	Impax Laboratories	NYSE	Accumulation	3/8/2008	Trail Stop
3/23/2004	Allegheny Energy	NYSE	Buying clusters	4/26/2004	Trail Stop
4/7/2004	Owens-Illinois	NYSE	Accumulation	10/18/2004	Trail Stop
4/20/2004	Ohio Casualty	NASDAQ	Buying clusters	11/22/2004	Stagnant
5/4/2004	Advanced Medical Optics	NYSE	Buying clusters	7/13/2004	Trail Stop

5/19/2004	Amkor Technology	NASDAQ	Buying clusters	6/14/2004	Trail Stop
6/2/2004	Krispy Kreme	NYSE	Buying clusters	8/2/2004	Trail Stop
6/14/2004	Asbury Automotive	NYSE	Accumulation	12/7/2004	Stagnant
6/30/2004	Kmart	NASDAQ	Buying clusters	7/20/2004	Trail Stop
7/13/2004	Swift Transportation	NYSE	Buying clusters	9/20/2004	Trail Stop
7/28/2004	Amphenol	NYSE	Buying clusters	10/12/2004	Trail Stop
8/17/2004	Gray Television	NYSE	Buying clusters	9/10/2004	Trail Stop
8/30/2004	Midway Games	NYSE	Accumulation	10/4/2004	Trail Stop
9/13/2004	Sun Microsystems	NASDAQ	Buying clusters	1/5/2005	Trail Stop
9/27/2004	Par Pharmaceutical	NYSE	Buying clusters	1/24/2005	Trail Stop
10/18/2004	Nvidia Corp	NASDAQ	Buying clusters	3/14/2005	Trail Stop
11/1/2004	American Financial Group	NYSE	Accumulation	7/19/2005	Trail Stop
11/15/2004	Alliance Gaming	NYSE	Buying clusters	1/11/2005	Trail Stop
11/29/2004	Sirius Satellite Radio	NASDAQ	Accumulation	12/13/2004	Trail Stop
12/22/2004	Coca-Cola	NYSE	Buying clusters	4/6/2005	Stagnant
1/11/2005	CoBiz	NASDAQ	Buying clusters	4/19/2005	Trail Stop
1/18/2005	William Lyon Homes	NYSE	Accumulation	2/15/2005	Trail Stop
1/31/2005	Martek Biosciences	NASDAQ	Buying clusters	10/20/2003	Trail Stop
2/23/2005	OMI Corp	NYSE	Buying clusters	6/13/2005	Stagnant
3/7/2005	Celanese	NYSE	Buying clusters	5/17/2005	Trail Stop
3/28/2005	Enterprise Products	NYSE	Buying clusters	8/8/2005	Trail Stop
4/12/2005	Liberty Media	NASDAQ	Accumulation	7/19/2005	Trail Stop
4/28/2005	William Lyon Homes	NYSE	privatization	9/26/2005	Trail Stop
5/17/2005	Cincinnati Bell	NYSE	Buying clusters	8/8/2005	Trail Stop
5/31/2005	3Com Corp	NASDAQ	Buying clusters		
6/20/2005	Compuware	NASDAQ	Buying clusters	9/20/2005	Trail Stop
7/12/2005	Barnes and Noble	NYSE	Accumulation	3/3/2008	Trail Stop
8/1/2005	Zions Bancorp	NASDAQ	Accumulation		
8/17/2005	Griffon Corp	NYSE	Accumulation	1/16/2006	Stagnant
9/8/2005	NL Industries	NYSE	Accumulation	9/26/2005	Trail Stop
9/26/2005	American Eagle Outfitters	NASDAQ	Buying clusters	12/12/2005	Trail Stop
10/12/2005	CapitalSource	NYSE	Buying clusters		
10/25/2005	WebMD	NASDAQ	Buying clusters	12/19/2005	Trail Stop
11/7/2005	Stryker Corp	NYSE	Buying clusters		
11/29/2005	Amerco	NASDAQ	Accumulation	1/17/2006	Trail Stop
12/19/2005	Cyberonics	NASDAQ	Buying clusters	2/13/2006	Trail Stop
1/4/2006	SL Green Realty	NYSE	Buying clusters		
1/31/2006	Fossil Inc	NASDAQ	Accumulation	2/6/2006	Trail Stop
2/13/2006	Vector Group	NYSE	Buying clusters		
2/27/2006	Boston Scientific	NYSE	Buying clusters		
3/13/2006	Titanium Metals	NYSE	Buying clusters		
3/27/2006	Oakley Inc	NYSE	Buying clusters		
4/10/2006	Global Signal	NYSE	Buying clusters		
5/1/2006	Pegasus Wireless	NASDAQ	Buying clusters		
5/15/2006	Chesapeake Energy	NYSE	Accumulation	1/3/2007	Trail Stop
5/30/2006	Centennial Bank Holdings	NASDAQ	Buying clusters		
6/5/2003	Sirius Satellite Radio	NASDAQ	Accumulation	12/13/2004	Trail Stop
6/20/2006	U-Store-It Trust	NYSE	Buying clusters		
7/10/2006	Actuant	NYSE	Buying clusters		
7/31/2006	Dell Computer	NASDAQ	Accumulation	1/22/2007	Trail Stop

8/21/2006	Wynn Resorts	NASDAQ	Buying clusters		
9/13/2006	Cenveo	NYSE	Buying clusters		
10/3/2006	Revlon	NYSE	Buying clusters	11/27/2006	Trail Stop
10/23/2006	Eagle Materials	NYSE	Buying clusters	2/13/2007	Trail Stop
11/27/2006	Helix Energy Solutions	NYSE	Buying clusters	1/8/2007	Trail Stop
12/11/2006	DreamWorks Animation	NYSE	Buying clusters	11/13/2007	Trail Stop
1/3/2007	Saul Centers	NYSE	Accumulation	3/19/2007	Trail Stop
1/16/2007	Mannkind Corp	NASDAQ	Accumulaton	4/3/2007	Trail Stop
1/29/2007	Home Solutions of America	NASDAQ	Buying clusters	2/21/2007	Trail Stop
2/21/2007	L-1 Identity Solutions	NYSE	Accumulation	7/30/2007	Trail Stop
3/13/2007	NewMarket Corp	NYSE	Accumulation	5/28/2007	Trail Stop
3/26/2007	IndyMac Bancorp	NYSE	Accumulation	6/25/2007	Trail Stop
4/18/2007	Newcastle Investment Corp	NYSE	Buying clusters	7/10/2007	Trail Stop
4/30/2007	Goodrich Petroleum	NYSE	Buying clusters		
5/28/2007	Akamai Technologies	NASDAQ	Accumulation	7/30/2007	Trail Stop
6/12/2007	Inland Real Estate	NYSE	Buying clusters		
7/3/2007	EarthLink	NASDAQ	Buying clusters		
8/7/2007	Aaron Rents	NYSE	Buying clusters	9/24/2007	Trail Stop
8/13/2007	Equity One	NYSE	Accumulation		
8/21/2007	American Reprographics	NYSE	Accumulation	9/24/2007	Trail Stop
9/5/2007	American Eagle Outfitters	NYSE	Buying clusters	11/26/2007	Trail Stop
10/1/2007	Energy Transfer Equity LP	NYSE	Buying clusters	1/22/2008	Trail Stop
10/10/2007	Borders Group	NYSE	Buying clusters	11/13/2007	Trail Stop
10/25/2007	Associated Banc-Corp	NASDAQ	Accumulation	1/14/2008	Trail Stop
11/13/2007	Allied Capital	NYSE	Buying clusters	1/8/2008	Trail Stop
11/26/2007	AutoNation	NYSE	Accumulation	6/10/2008	Trail Stop
12/10/2007	Limited Brands	NYSE	Buying clusters	1/8/2008	Trail Stop
1/2/2008	Leap Wireless International	NASDAQ	Accumulation	1/8/2008	Trail Stop
1/14/2008	First Horizon National	NYSE	Buying clusters	2/13/2008	Trail Stop
12/2/2008	Burlington Northern	NYSE	Accumulation	6/18/2008	Trail Stop
1/28/2008	Parker-Hannifin	NYSE	Accumulation	3/11/2008	Trail Stop
2/4/2008	Barnes & Noble	NYSE	Accumulation	3/3/2008	Trail Stop
2/19/2008	McMoRan Exploration	NYSE	Accumulation	6/18/2008	Trail Stop
3/3/2008	Equinix	NASDAQ	Buying clusters		
3/17/2008	AutoNation	NASDAQ	Accumulation	6/10/2008	Trail Stop
3/31/2008	Tempur-Pedic International	NYSE	Accumulation	6/18/2008	Trail Stop
4/21/2008	AutoZone	NYSE	Accumulation		
5/5/2008	Jefferies Group	NYSE	Buying clusters		
5/21/2008	Enterprise GP Holdings	NYSE	Accumulation		
6/2/2008	Royal Caribbean Cruises	NYSE	Accumulation		
6/18/2008	Home Depot	NYSE	Accumulation		

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Appendix C: Cumulative excess returns calculated while excluding alert firms with negative book equity and/or having share codes that are not 10 or 11.

	<i>n</i>	<i>Cumulative Return</i>	<i>Cumulative Excess Return</i>	<i>Percentile</i>
6 months	95	8.16% (6.79%)	3.58% (3.59%)	87 (99)
12 months	85	13.03% (14.27%)	4.86% (4.01%)	80 (98)
18 months	76	37.61% (22.30%)	17.60% (10.25%)	96 (99)
24 months	66	51.49% (42.70%)	23.21% (3.53%)	95 (97)
30 months	59	54.68% (31.54%)	19.81% (1.92%)	92 (95)
36 months	52	68.60% (47.28%)	22.87% (7.45%)	84 (97)