

E-Illuminations

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We dance around technology stocks these days like we had no conviction. The fact is that we don't. We just closed out a trade on the QQQQ's after two technical trading services signaled to go from LONG to SHORT. We didn't go short, but we did take the signal as a sell.

Read this article about recent insider selling and you might develop a better understanding of our skittishness.

"TECHNOLOGY STOCKS HAD A CHOPPY YEAR. But when November's rally came, insiders started to pocket some hefty profits.

This month, technology insiders sold \$1.8 billion worth of shares, more than double the selling in each of two sectors -- health and consumer discretionary companies, according to a Thomson Financial report released on Monday.

Nearly 80% of those sales came from software companies.

The bull run in tech stocks beefed up gains in stocks sold under long-standing trading plans by executives at companies such as [Microsoft](#), [Google](#) and [Yahoo](#). At [CNET Networks](#), [ValueClick](#) and [Salesforce.com](#), insiders are also selling plenty of shares beyond those acquired through options.

"There is a fairly significant increase in insider selling relative to a year or two ago, and that's due in part to IPOs that have come out during the period and rising prices," says David Coleman, editor of Vickers Weekly Insider.

"It could be an early warning signal that the group is due for a correction," he adds.

Equity analysts, however, continue to be optimistic about the technology sector.

The uptick in sales juxtaposes a rally in the Nasdaq Composite Index, which posted its third-largest monthly gain of the year of 5.3%. The tech-laden benchmark is up 2.5% for the year, compared to a 3% increase in the Standard & Poor's 500 index.

This month, seven Microsoft insiders, including founder and Chairman Bill Gates, sold about \$67 million in stock, the highest dollar amount this year, according to Thomson data. David Wayne Cole, senior vice president, sold 500,000 shares following options exercises, each priced at \$6.22.

In the past, Cole has had "pretty good performance in sell decisions", says Mark LoPresti, senior quantitative analyst at Thomson Financial.

At Google, nine insiders, including co-founder Larry Page, pocketed \$380 million by selling off 1.3 million shares, compared to 800,000 shares a year ago, according to Thomson data. SEC filings indicate nearly all of them were sold under a trading plan.

Yahoo insiders, meanwhile, sold more than double the shares they did last November, making \$60 million on 1.5 million shares. For the quarter, they sold \$68.5 million in stock, the largest fourth-quarter selling in the past five years.

Michael Painchaud, managing director of research for Market Profile Theorems, says it is always difficult "trying to divine something from the sell-side" from these big-caps because stock-related compensation makes insiders inherent sellers.

Even so, "just a sheer amount of stock being dumped on the market by exercising these options has a dilutive effect and obviously there is a financial impact in terms of accounting of those options," says Ben Silverman, director of equity research at InsiderScore.com.

At some of the smaller tech companies, insiders have been selling more shares in the open market than exercising options, according to Thomson data.

At ValueClick, which offers online marketing channels, insiders have been selling shares above and beyond the options exercised as the stock moved toward historic highs, notes Silverman.

Six insiders, including the chief executive and the chief financial officer, sold 1.1 million shares, nearly four times November 2004, for \$21.5 million. SEC filings indicate 275,000 options were exercised.

At Website operator CNET, sales for the quarter were around \$2.2 million, compared to a five-year average of \$590,000. Shelby Bonnie, CNET's CEO, sold 150,000 shares this month.

Meanwhile, insiders at Salesforce.com, which makes business-management software, have been persistent sellers throughout the year. This month, they sold about 445,000 shares for \$12.5 million. So far in the fourth quarter, insiders have pocketed \$27 million, compared to the five-year average of \$15.8 million.

While options have long made tech companies attractive by serving as an incentive for executives to drive growth in the short term, Silverman says "in the long run, you don't have insiders building up real equity in the company."

"You want an executive to invest in the company alongside of you, put some money on the table and ride out that stock with you," he adds.

Thomson's LoPresti also notes that capital expenditure is growing at a slower rate at technology companies than the rest of the market. This could, in part, be explained by lower costs due to outsourcing, he says.

Tech companies in the S&P 500 have been increasing spending by about 4.25%, while other index players are increasing spending by 24%, according to Thomson data.

While earnings growth outlooks continue to be robust, LoPresti notes it can take two or three years for this spending to hit the bottom line.

"The fact that insiders are starting to sell [indicates] that maybe these benefits are not going to be expected in the near term," he says."

Barron's Online

Despite all the insider selling we regret selling YAHOO and are looking for an entry point to get back in. We are learning about Taiwan Semiconductor, who we are convinced will dominate Asia in chip sales, and has the potential to make Intel a real second rate player. Apple, what can we say?

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Paul Krsek

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