



Insiders Are Buying These Three Small Caps, Should You?

Description

We outsiders, working primarily from publicly available financial information, don't always have the full picture of what's going on in a company. No matter how much digging we do.

One group that has a more complete picture than us are known as insiders. This collection typically consists of company management, directors, and/or financiers.

If we find a company through our own struggles that appears interesting, and then we uncover that insiders have recently bought, presumably based on more information than we have, it could be a solid indication that we might be on to something.

These three companies topped the list of insider purchases over the past 7 days in the Canadian market:

Espial Group (TSX:ESP)

Based in Ottawa, Espial carries a market cap of \$10 million and has been alive since 1997. The company is helping to transform television into an internet based, anywhere, anytime service. Its software enable a wide range of services that include Live TV, Video-On-Demand, Personal Video Recorder, Electronic Program Guide, Interactive Browsing, Web TV, and Timeshift TV.

Even though it's been around since 1997, this is still a very young company. Its four largest shareholders, accounting for almost 62% of the shares outstanding, are venture capital related firms. The fifth largest shareholder however is an individual and it was he who purchased 700,000 shares last week at \$0.85. His name is Michael Wekerle, a Bay Street legend.

Mr. Wekerle is associated with a company named **Difference Capital** (TSXV:DCF), a merchant bank and Espial's fourth largest shareholder. Difference Capital purchased 650,000 shares as well last week. Combined, Wekerle and Difference now own 18.6% of the company. Wekerle owns 7% on his own.

Elgin Mining (TSX:ELG)

Elgin operates a gold mine in Sweden and is attempting to rejuvenate two past producing gold mines in Nunavut. The company also has an ownership stake and working interest options in several other developing gold projects in the U.S. and Mexico.

Elgin's CEO picked up 500,000 shares at \$0.48 last week. This took his share count in the company to 1,996,500 and ownership stake to 1.35%.

Over the past 12 months, Elgin was actually free cash flow positive, a trait many gold miners, junior and senior, would love to share. The company generated free cash of \$0.07 per share. With a stock price of \$0.51, Elgin trades at a very attractive free cash flow yield of 13.7%.

Not only does this company generate free cash, the balance sheet looks good too. With just \$700k in total debt, leverage at Elgin is not an issue.

Insiders buying, free cash flow positive, and a clean balance sheet. Not a bad starting trio, if you're feeling speculative.

Crocotta Energy (TSX:CTA)

Crocotta is a junior oil and gas company headquartered in Calgary that Thomas Claugus just initiated a personal position of 419,500 shares in. Claugus founded Atlanta-based hedge fund GMT Capital in 1990. His personal position pales in comparison to the more than 9 million shares that GMT has recently accumulated. This amounts to 10.4% of Crocotta.

Crocotta is currently producing about 9,000 boe/d, which is up four fold from its beginning production in 2010. The company is after oil and liquids rich gas at its Edson and Montney projects. Crocotta is not generating free cash but seemingly has the financial flexibility to continue developing these promising assets. At least Claugus seemingly believes they are promising.

The Foolish Bottom Line

What's right for insiders may not be right for Fools as financial circumstances and risk tolerance are entirely personal. Always do your own due diligence, understand the risks/rewards, and if you like what you see, at least you'll know you're not alone.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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