



## The CFO's Buying – Are You?

### Description

A recent article in the Globe indicated a diverging trend between the Canadian and U.S. stock markets. Not only has the performance between these markets been quite different in recent times, so too has insider trading activity.

The article suggests that in the U.S. there are 4 stocks with key insider *selling* for every 1 that has insider buying. In contrast, Canada has more than 2 stocks with key insider *buying* for every one with selling.

And this contrast becomes even more dramatic if we zero in on the gold space where the buy:sell ratio is 8:1.

### There's insider buying and then there's insider buying

A research paper from a couple of years ago titled "[Are CFOs' Trades More Informative than CEOs' Trades?](#)" by Weimin Wang, Yong-Chul Shin, and Bill Francis indicates that "purchase transactions by CFOs, compared to CEOs, provide superior information to investors."

Several opinions exist as to why this might be, but one columnist, Nell Minow, figures it's simply because CFOs are more motivated by these stock purchases due to the "monumental differential" in the amount of pay they receive (relative to the CEO).

### Where's the action

Based on the academic findings, it stands to reason that if we narrow down all of the insider buying in the Canadian market and focus on those companies where the CFO is participating, we should have a pretty good launch point for further research.

According to Capital IQ, there are five companies in the S&P/TSX Composite that have grabbed a share of their CFO's wallet over the past 6 months.

These 5 are tabled below along with the number of shares in each that the CFO acquired.

Company Name	Mkt Cap	Shares Purchased	Current Value
Catamaran Corporation (TSX:CCT)	\$10.2B	22,394	\$1,106,040
Valeant Pharmaceuticals (TSX:VRX)	\$28.6B	6,318	\$594,966
Thompson Creek Metals (TSX:TCM)	\$628M	32,107	\$118,154
Cott Corporation (TSX:BCB)	\$824M	12,345	\$106,784
Atlantic Power (TSX:ATP)	\$601M	1,706	\$8,564

Source: Capital IQ

The top two companies on the list have taken the Canadian market by storm in recent years with their acquisitive strategies. The growth experienced by both has resulted in very, um, pleasant returns for shareholders.

Although Catamaran has been relatively stagnant over the past year or so, its 5- and 10- year returns are anything but. The stock has climbed by roughly 1,100% and 4,500% over these periods! Given the +\$1M purchase, the CFO clearly sees the recent stall in the company's stock as temporary.

Valeant has also been a market darling since its merger with Biovail was completed in 2010. The stock has climbed 90% over the past year alone and has been [all over the headlines of late with its \\$8.7 billion acquisition of Bausch + Lomb](#).

Thomson Creek, a diversified mining company, sold-off during the March/April resource meltdown that occurred but has bounced back recently. The stock is down 11% YTD but up close to 30% over the past 6 months.

After experiencing a significant run through the closing months of 2012, Cott has fallen back to earth after a disappointing quarter. The CFO's purchase indicates Cott's stock may hop back on the rocket ship in the not too distant future.

And Atlantic Power has taken a drubbing over the past 6 months. The company was forced to cut its dividend back in March, a move that was not met with a warm response from Mr. Market. If the dividend is safe, this stock offers an interesting opportunity with an 8% yield, however it'd be nice to see the CFO step in with a more significant purchase to help counter-act the [financial risk that this company faces](#).

## Foolish Takeaway

Investing should never be boiled down to one variable. Still, take notice. The academic research is compelling. The next time you're evaluating a company, have a peak at which insiders have been active.

It might just sway you one way or the other.

Another compelling variable to focus on with your portfolio is dividend yield. The Motley Fool's [Special Free Report](#) "**13 High-Yielding Stocks to Buy Today**" presents an array of ideas that will have you swimming in a steady stream of dividend cheques in no time. Simply [click here](#) to download this report. It's **FREE!**

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*Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:BHC (Bausch Health Companies Inc.)
2. TSX:PRMW (Primo Water)

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