



The Smart Money Is Buying These 3 Energy Stocks: Should You Buy, Too?

Description

Insider trading gets a bad rap.

There are essentially two kinds of insider trading — the good, legal kind and the bad, illegal kind. The bad version is the one you hear about on the news. An exec tips off a friend about an upcoming bad quarter, or a senior management member uses his cousin's name to trade in the underlying stock. If someone gets caught doing this, they're looking at potential jail time.

The vast majority of executives would never dream of doing such a thing. Their insider trades are perfectly legal. They happen after a recent quarterly earnings release, timing that minimizes their advantage over a regular investor. Buys are disclosed immediately, including the number of shares bought, the price paid, and the total holdings.

Many investors believe a stock with heavy recent insider trading is a strong buy. If top management members or prominent investors are bullish, it's always a good sign. They know the company better than anyone, and it's obvious someone in a prominent position is smart. If there were skeletons in the closet, these people wouldn't be buying.

Three Canadian energy stocks are seeing significant insider buying lately. This could very well be a bullish signal. Let's take a closer look.

Encana

Encana (TSX:ECA)(NYSE:ECA) recently announced a deal with **Newfield Exploration** that would see it acquire the company in a \$5.5 billion all-stock transaction. Investors did not care for the plan, sending Encana shares down some 25% since the deal was announced.

This sharp move downwards is despite Encana promising to increase its dividend by 25% and start buying back shares once the deal closes.

Often, you'll see just one or two members of a top executive team taking advantage of a downturn and

buying shares. But Encana is seeing significant insider buying from all sorts of different sources.

Board member Clayton Woitas led the way, acquiring 100,000 shares. Fellow board member Bruce Waterman isn't far behind; he bought 75,000 shares. CEO Doug Suttles picked up 50,000 shares. Another board member, Peter Allen Dea, purchased 34,168 shares. And CFO Sherri Brillon added 20,000 shares.

These are just the big purchases. Several other insiders also dabbled in the stock. Altogether, Encana insiders have purchased 328,323 shares since the company announced its latest acquisition. They spent close to \$4 million.

Gran Tierra

When a company initiates a stock-repurchase plan it's usually an indication that management thinks the shares are cheap. When you combine that with aggressive insider buying, it's often a very bullish signal.

Gran Tierra Energy ([TSX:GTE](#))(NYSE:GTE) recently announced its intention to buy back some 19 million shares this year. That works out to a little less than 5% of its total shares outstanding.

The insider trading at Gran Tierra is a little different than Encana's. It's all driven by GMT Capital, which is by far the company's largest shareholder. As of September 30, when the asset manager was required to file its 13F filing, it had just over 61 million shares. It has added more than 800,000 since filing that report.

Pengrowth

Pengrowth Energy (TSX:PGF) is seeing a similar situation play out. A major shareholder has been adding to his holdings lately.

Seymour Schulich is a legend in the resource world. Along with a partner, he essentially invented royalty financing. That company eventually merged with Newmont Mining, where Schulich served as a director from 2002 to 2007. At the time, Newmont was the largest gold miner on the planet. These days, Schulich is an investor and philanthropist.

One of Schulich's largest holdings is Pengrowth. Since July, he has added 17 million shares to his already substantial investment in the company, which was listed at 140 million shares in the company's recent annual management information circular. In total, he owns approximately 28% of the company.

The bottom line

Some of the smartest energy investors out there are adding to their holdings during this time of weakness for Canada's largest oil producers. Whether the buying comes from board members, top management personnel, or an already large investor, it's hard not to be bullish when the smart money starts buying shares.

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