



Alert: Big Insider Buying at This Canadian Bank

Description

While there are a multitude of different reasons as to why an insider would sell shares of their own company, there's only one reason why they'd buy common shares on the public markets: they believe their own shares are trading at a considerable discount to their intrinsic value.

As you're probably aware, influential insiders, like high-level executives, are generously compensated with company stock through options. And usually, these insiders are looking to cash out their positions upon exercising these options, so they can better diversify their portfolios and not be overexposed to a single stock. It's never a good idea to be primarily in one stock, after all, even if you are bullish on your own company's prospects.

With that in mind, it's not a mystery as to why insider selling activities have, on average, outweighed insider buys in recent years. So, anytime you can spot insider buying activities going on in a company whose shares have been badly battered, you should treat the insider buys as a clue that the stock may be severely undervalued and due for an upside correction over the medium term.

Now, that's not to say that you shouldn't still do your homework and just blindly follow the insiders into their own stock. Insider buy/sell activities is just another weapon to add to your arsenal and serves as a supplement, not as a replacement, to proper due diligence.

With that warning out of the way, consider the prominent insider buys that have gone on at **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), a Big Six, dividend, banking king that's been clobbered in recent months with shares falling over 17% from September highs.

At the time of writing, the stock sports a fat 4.45% dividend yield and now trades at a ridiculously cheap 9.4 times next year's expected earnings. The stock is the cheapest it's been in recent memory, and given the bank's dominant position in Canada's [wealth management](#) scene, among many other segments where the bank continues to operate at a high level, investors should ask themselves whether BMO's recent pullback is in line with reality or if the stock merely got caught offside as the broader markets corrected.

Just this summer, BMO stock was trading at more of a premium relative to historical or industry averages. It was a pretty expensive stock, so BMO's larger-than-average pullback may appear warranted. While BMO stock did become frothy earlier this year, given the enormous strides that the bank had made over the past year, I thought BMO's higher multiple, which has now gone up in smoke, was more than warranted.

Foolish takeaway on BMO

The way I see it, BMO reported a less-than-stellar quarter at the worst possible time, which severely exacerbated the big downward move.

Sure, BMO is due for a [mild growth slowdown](#), but a 17% peak-to-trough decline is overdoing it! BMO's directors have recognized this, and that's why they've been eating their own cooking with nearly \$3 million in common share purchases at around the \$90 level. I was already bullish on BMO stock on the dip, and now that insiders are getting in on the action, I'm pounding the table and would encourage Foolish investors to think about initiating a position right here.

Personally, I'm patiently waiting for January so that I can pick up BMO shares with the proceeds from my 2019 TFSA contribution. Hopefully, the stock will remain at these depressed levels for a few more weeks!

Stay hungry. Stay Foolish.

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