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An independent and profitable state of mind.

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Insider Buying: How to Make a Good Thing Even Better

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Index Momentum

S&P 500	GREEN
Nasdaq	GREEN
Russell	GREEN

Dear Fellow Expat:

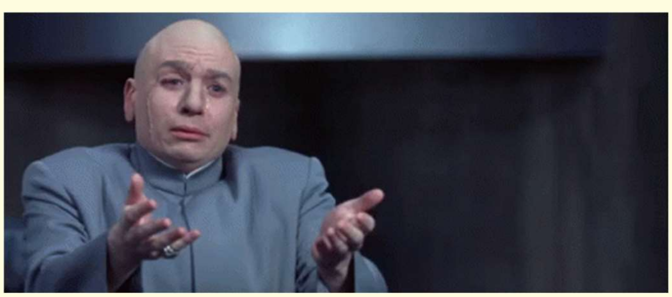
“If our daughter is anything like you when she’s sick,” my wife said, “I’m gonna lose it.”

Yes… I’m a bad patient when I get ill. I bounce back quickly, but my “sick-to-better” process is a *sharp* V-shaped recovery, where the dip in the **V** stretches to the bottom of this page.

Last night, my daughter had a fever.

She whined for a blanket. She begged for five popsicles. She demanded to be carried. She refused to brush her teeth. And then she cried that no one was sitting beside her on the couch, even though I sat four feet away.

But instead of acknowledging my presence beside her, she pouted her lip and reached out longingly toward my wife, two rooms away, like a crying Dr. Evil clamoring for a hug.



My wife is a teacher, so of course, my wife can’t take off work. So… here we are.

Sick day!

Dad is trading the first positive equity momentum day since August 10, and my daughter is lying to the right here…

A Sick day also means… we’re watching *Sing* and *Sing 2*… all day!

I need something to distract me. So, how about insider buying?

This Stock Stood Out Among Standouts

As I've explained, insider buying is one of the most powerful indicators in the financial markets. Insider buying is when an executive buys their own stock with their own cash. They put their own money down and file an SEC Form 4 document.

Many people love to buy the same stocks as the insiders – whether it's the CEO, CFO, 10% owner, chairperson, or even the legal secretary…

The thing that matters is they use their own money.

Numerous academic studies show that executives buying their stock easily beat the S&P 500 by a wide margin.

But pairing this strategy with other anomalies can deliver an even more powerful upside and greater edge.

Let me show you an example of what happens if you don't keep your eyes on equity momentum when following insider buys.

Last night, I scanned a list of stocks with strong Piotroski F scores (over 7), strong Altman Z scores (over 3), broad support from Wall Street analysts, and recent insider buying.

I came up with a list of roughly 25 names.

One name stood out.

It's called **SolarEdge Technologies** (SEDG).

This company specializes in developing, advancing, and distributing optimized direct current inverter systems tailored for solar photovoltaic setups.

That's a mouthful to say they are a "solar company."

Solar stocks have taken a beating this year, SEDG included. Last week, SEDG shares dipped under $160 per share.

SEDG shares are off 42% year-to-date (YTD) through Wednesday evening. They traded as high as $345.80 in February.

But check this out.

There are two executives we must follow regarding insider purchases (again, when executives buy their stock).

The first is the CEO, who knows the future and strategy of the company better than anyone.

If the CEO is buying, they likely believe the stock is going higher based on market conditions or a major development on the horizon at the organization.

The second is the CFO, who best knows the balance sheet.

The CFO likely believes the stock is undervalued now or trades at a discount to where it should be valued in the future.

And on August 9, the CFO bought roughly $157,588 in SEDG shares.

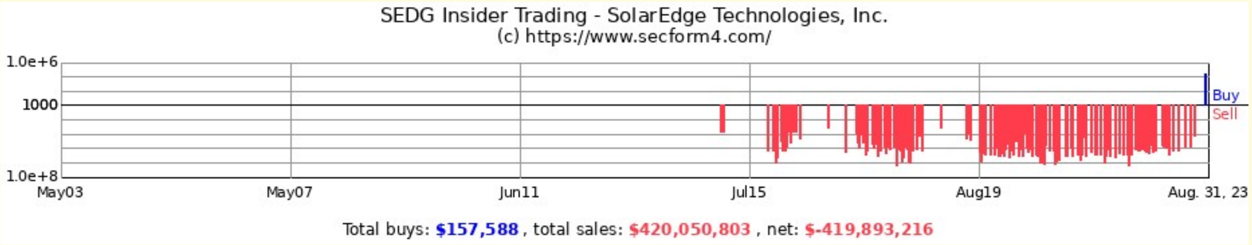
That purchase was massive. And I mean *massive.*

Let me show you a chart that explains why.

The First SEDG Insider Buy Ever

You see, this chart tracks the history of the company’s insider buying and insider selling since its inception as a public firm.

This August 9 purchase by the CFO… was the first purchase by an executive in the company's history. See that little blue line popping up on the far right of the chart?



According to the SEC, this blip represents the first time an executive ever put their own money down and bought the stock.

I know… You can barely even see that blue blip on the right.

And you definitely can’t miss that sea of red on the bottom side of the graph. *That’s… all… of… the… selling…* since inception.

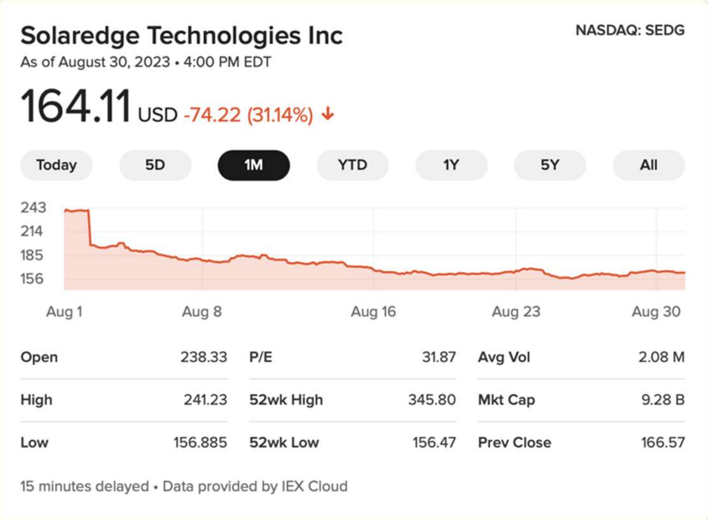
Over the last decade, insiders (largely paid in stock/options) have sold a staggering $420 million in stock.

By this logic, nearly every financial quarter in the last eight years has created a period to sell. And they sold… a lot.

August 9 was the first time anyone in the C-suite refused to pass up an opportunity to buy the stock with their money.

After all, shares traded at a near 50% decline to February's price.

So why wouldn't you want to piggyback that purchase?



I'll bet that many people who trade insider buying forms or pay money for services around that type of research also bought.

But you shouldn't have paid $180 for SEDG… or even $170 this month.

The stock kept falling in August… even after news of the CFO's purchase hit on August 11 through an SEC Form 4 insider buy report.

So… What gives?

Well, that's where Equity Momentum comes into play…

Negative Momentum Hit… the Day Before the SEC Form 4

The daily MACD readings for the Russell 2000 and the S&P 500 (which we've discussed before) both turned negative on August 1.

This can be an early signal for a potential downturn in the market in the weeks ahead. Technology stocks started selling off the following day, propelling the NASDAQ lower.

Then, the EQM reading went negative… on August 10... and stayed that way until August 30.

With negative momentum hitting the market, it signaled a possible sign of liquidity or credit issues somewhere around the world and the likelihood of an ensuing selloff (we're not out of the woods yet, either). We'd seen a similar reading on March 7, 2023, a week before the regional banking crisis hit the news.

In this case, we'd been watching China's debt crisis build and other concerns mount about the state of U.S. credit markets.

However, since the Fed's meeting in Jackson Hole, we've seen an improvement in global liquidity readings, according to CrossGlobal Capital, and China has been easing in recent weeks.

Which brings us back… to **SolarEdge Technologies** (SEDG).

On Thursday, SEDG closed at $164 per share. And the recent market selloff on the day of the Jackson Hole conference took it as low as $158.

Anyone who has looked at SEDG as a buy at $180 based on the CFO buy would likely enjoy buying it nearly 9% lower than his buying price. It helps that EQ momentum turned positive on Wednesday.

In a more speculative side of a portfolio, SEDG may be a stock that I'd consider based on the fundamentals I'd listed above.

Undoubtedly, it will benefit from broader government spending, expected increases in central bank liquidity efforts, and the massive trends of decarbonization and digitalization.

SEDG also has a smaller short float of 4 million or roughly 7.1% of outstanding shares. With the recent short squeezes helping to propel the market, this can be a good speculative play, especially if you keep a tight trailing stop.

We can't control which way this market goes. As I've said, we may see a short-term pop before seasonality hits.

But SEDG is severely oversold based on its 14-day Relative Strength Index (RSI 14) and Money Flow Index (MFI 14). And its daily MACD reading has turned positive, signaling a possible reversal is in play. See the readings in the chart below.

Finally, traders might find interest in selling put spreads at lower prices in case they decline lower.

Conclusion

So, your three takeaways from today…

- Insider buying is a powerful market anomaly. Investors should examine macroeconomic factors like liquidity and other anomalies and metrics like momentum before buying a stock based on a CEO or CFO move.

- Examining other fundamentals and technical to help build conviction is always critical.

- My daughter is, in fact, a better patient than I am.

- Elton John's *I'm Still Standing* is the best song in the *Sing* franchise… It's just exhausting to hear it four times in 20 minutes.

Stay positive,

Garrett Baldwin
Secretary of Finance
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