



## MONEY DUE REWARDS:

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**Greg Southwell**

### Insider Trading – Still Alive & Well

“Insider Trading”, as it is so aptly called, is the practice of buying and selling shares by people who have access to price-sensitive information which is not available to the public. The well-known recent example is Steve Vizard, who as a Telstra director, had access to confidential information about three listed companies, and traded in the shares of those companies for personal gain.

In a recent Sydney Morning Herald article, David Elias examined the way that company share prices so often seem to move in anticipation of news which is later released to the market. His conclusion: “Inside information is being widely used to drive share prices and force shifts of millions of dollars in the market value of public companies”.

Whilst this assertion will be a shock for some, I must say that personally I had already formed a similar view, simply by watching the way share prices move both before and after a major price-sensitive announcement. If the inside information was really kept under wraps and not traded upon, the share price of the company concerned would move suddenly after the announcement, with minimal movement beforehand. In practice, this almost never happens!

This clearly has some fairly sad implications about the general standard of business ethics amongst some people in Australia’s corporate sector, but what does it mean for investors?

Some people would no doubt take this piece of news as proof that the sharemarket should be avoided at all costs. I have to say that I don’t agree with this assessment.

In my view, trading on short term news flows is not sensible. If you receive a hot tip about a “good” stock to buy, there are at least two possibilities. One possibility is that you are incredibly fortunate in that somebody “in the know” has magnanimously decided to give you some news that will be certain to make you a lot of money. Possible but not likely! Another possibility is that someone else wants to sell the stock, and wants you to buy it so that they can sell at the best price possible. This, I think is more likely.

The good news, however, is that the real money to be made in the sharemarket (with a reduced level of risk) is by investing for the medium to long term, and not by short term trading. By investing in a researched, diversified portfolio of good quality stocks, investors can build real wealth for the future, and without being seriously affected by the day to day traders. After all, if you are holding a stock for the long term, you won’t be overly concerned whether the market adjusted to some piece of news a few days earlier or later.

As with any area you are not familiar with, it is important to seek professional advice regarding shares before you invest. This way you can avoid many pitfalls.

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