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FAQ

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1. Who are insiders?

The definition of an "insider" includes CEO's, CFO's, and others as outlined in National Instrument 55-104 and its companion policy (55-104CP). In our view, basically anyone who has access to material information about the company and who can influence the direction of the firm must file insider reports. In addition, generally anybody or organization that owns or has claims on 10% or more of a company's equity is also an insider and must file insider trading reports although there are some important exceptions for eligible institutional investors through National Instrument 62-103 (Part 4) (http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/44_83_2000#part4). In addition, an issuer will have to file insider trading reports if it buys back its own shares.

2. What are insider trading reports and what is SEDI?

Securities regulations in Canada generally require corporate insiders of publicly listed companies to report the details of all their buys and sells of company securities within 5 days of a transaction. Insider reports are filed electronically into the national System of Electronic Disclosure by Insiders (SEDI) and reported by INK on this web site.

Company insiders have the right to buy and sell securities in their own firm so long as they are complying with securities laws and rules. This means, for example, that they cannot trade in their own securities when they are in possession of "material" non-public information, such as a pending take-over bid.

Insiders must report transactions done both on and off stock exchanges in any securities issued by a reporting issuer or in derivatives that result in a claim on securities issued by the company. So, the requirements cover not only stocks, but also warrants, options and other derivatives.

Investors should be aware that there are a number of exceptions to the 5 day reporting rule. In particular, companies engaging in buy-backs have until the 10th day of the following month to report their public-market transactions. Some employee stock plan purchases can be exempted from the 5 day rule. Recently, securities regulators have also been granting relief from the 5 day rule for insiders who have applied for an exemption and have entered into automatic sales plans. There are also important exemptions available for certain 10% holders such as mutual funds who can be given relief under National Instrument 62-103 (Part 4) (http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/44_83_2000#part4) from reporting on SEDI and instead file Alternative Monthly Reports on SEDAR (www.sedar.com) (<http://www.sedar.com/>)).

This discussion is not meant to be an exhaustive or legal summary of insider reporting in Canada. For more information on the definition of insiders and insider reporting obligations as well as links to National Instrument 55-104 and its companion policy, please refer to the package provided by the Alberta Securities Commission on insider reporting and exemptions (http://www.albertasecurities.com/industry/securities-law-and-policy/_layouts/Regulatory-Instruments/RegulatoryInstrumentDispForm.aspx?List=c425783b-0214-41e1-bc6a-66e6766ff3aa&ID=409&Web=729da164-5e70-47a7-bdea-6a26546e92e3). Those looking for detailed information with respect to insider reporting as governed by Ontario, please consult information available on the Ontario Securities Commission web site (http://www.osc.gov.on.ca/en/Companies_insider-reporting_index.htm).

The Canadian Securities Administrators have provided an explanation of Nature of Transaction codes available here (https://www.sedi.ca/sedi/new_help/english/public/Glossary/Nature_of_transaction_codes.htm). A more extensive glossary of reporting terms is available here (https://www.sedi.ca/sedi/new_help/english/public/welcome_to_sedi_online_help.htm).

An explanation of SEC transaction codes can be found in the Form 4 instruction document (PDF) here (<https://www.sec.gov/about/forms/form4data.pdf>).

3. What is the INK Edge outlook?

The INK Edge Outlook ranking process is the same process that is used to determine a stock's membership in the INK Canadian Insider Index. This completely quantitative process ranks a stock based on our V.I.P. criteria:

Value: how a stock compares to other stocks based on traditional valuation measures including P/E, Price-to-book, price-to-sales and dividend yield.

Insider commitment: officer and director buying activity, including number of active insiders buying and executive holdings.

Price momentum: a stock's relative strength over multiple time frames.

INK Edge Outlook combines rankings in the 3 V.I.P. categories on an equal basis to assign a composite ranking to a stock. The objective is to identify which group of stocks are most likely to out or under-perform over the next year on a portfolio basis.

Stocks are assigned one of 5 rankings. From the most attractive group to least attractive group, INK Edge Overall Outlook conditions are:

Sunny (most favourable - top 10%)

Mostly Sunny (favourable - next 20%)

Mixed (middle 40%)

Cloudy (unfavourable - next lowest 20%)

Rainy (least favourable - bottom 10%)

Based on historical experience, a portfolio of Sunny stocks is expected to outperform a portfolio of stocks in the Rainy category on average over the next 12 months. Results may vary over time, and past success of a strategy does not guarantee positive performance in the future. Visit the methodology section of the INK Research Index site (<https://index.inkresearch.com>) or watch our short INK EDGE Outlook video for more.



4. Do you cover US stocks?

Yes.

5. How far back does the history go?

SEDI electronic records now go back to June 2003. Until June 2003, insider reports were only available through each provincial securities commission. Subscriptions to Canadian Insider Alert Interactive and Institutional (<https://www.inkresearch.com/signup/>) provide 2 and 5 years of charting history respectively.

6. I can't find a company on your system, why not?

There may be some companies or insiders that do not show up on our system. While each case is different, one of the most common reasons for not being able to find an entry is that we cannot track companies or insiders that do not have SEDI (electronic) filings. If a company has just listed, it may be a while before it has its first insider reports.

7. Why are insider-trading reports important?

Academic studies using US data suggest that corporate insiders may earn above normal profits on their trades (For example, see Lakonishok and Lee, "Are Insider Trades Informative?" [The Review of Financial Studies](#), spring 2001). The findings suggest that company insiders, as a group, may be better informed than the average investor about the prospects for their respective firms. Other US studies (see FAQ#8) have found that insider buying tends to provide better information than insider selling. Please keep in mind, however, there is no guarantee that results from these US studies will be duplicated in Canada in the future.

8. Where can I read more about insider trading and stock returns?

Books

- Moreland, Jonathan. Profit From Legal Insider Trading. Dearborn Financial Publishing, 2000.
- Seyhun, H. Nejat. Investing Intelligence from Insider Trading. The MIT Press, 1998.
- Taulli, Tom. "Chapter 11." The Edgar @ Online Guide to Decoding Financial Statements. J.Ross Publishing.

Articles

- Beneish, M.D. and Vargus, Mark E. "Insider Trading, Earnings Quality and Accrual Mispricing." The Accounting Review (October 2002): 755-791.
- Cohen, L., Malloy, C. and Pomorski, L. "Decoding Inside Information". (October 2010). Available at NBER (<http://www.nber.org/papers/w16454>).
- Lakonishok, J. and Lee, F. "Are Insider Trades Informative?" The Review of Financial Studies (spring 2001).
- Miller, Edward M. "Investment Intelligence from Insider Trading." The Journal of Social, Political and Economic Studies (winter 1999): 477-484.
- Purnanandam, Amiyatosh K. and Seyhun, Hasan Nejat. "Shorts and Insiders." (July 30, 2007). Available at SSRN (<http://ssrn.com/abstract=1004155>).
- Scott, J. and Xu, P. "Some Insider Sales Are Positive Signals." The Financial Analysts Journal (May/June 2004): 45-51. Available at CFA Institute (<http://www.cfapubs.org/doi/pdfplus/10.2469/faj.v60.n3.2620>).
- Tartaroglu, Semih. "Insider Trading During the Technology Bubble." (February 2009). Available at SSRN (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1344812).

New research is being produced all the time. Investors may want to periodically search the Social Science Research Network data base at www.ssrn.com (<http://www.ssrn.com>)

9. Should I simply do what the insiders do?

While we believe insider activity can be an important screen and a potential indicator of a company's prospects, it is usually used in conjunction with other indicators. It is important to keep in mind that academic research has shown that following insider buying signals in isolation can result in holding stocks with both losses and gains. In the past, a few "big wins" among stocks with insider buying has been shown to compensate for the inevitable number of stocks that still go down despite insider buying. It is best to use insider trading data to identify potentially profitable trading ideas by incorporating insider signals into an overall diversified portfolio strategy and due diligence process. Insider signals can be used by either contrarian (value) or momentum (growth) investors. For an overview, please see our Investing Style (<http://www.inkresearch.com/prelog/investingstyle/>) guide.

10. Does INK Research accept payment for stock coverage?

We are subscription supported and do not accept payments from issuers or their promoters for stock coverage.

11. What is INK Ultra Money?

INK Ultra Money is a video-on-demand service that focuses on investment and stock ideas from Real Vision and INK. Real Vision delivers in-depth analysis of global investment trends along with actionable ideas from financial industry insiders. These are some of the brightest minds in finance who bring you both bullish and bearish deep-dive perspectives. If you are not familiar with Real Vision, please watch their trailer:



Get the insider scoop on emerging investment trends with Real Vision

We supplement Real Vision content with 90-second long videos which summarize our INK daily morning reports. INK Ultra Money videos are updated every trading day morning. Canadian Insider Club Ultra members can access both INK and Real Vision videos via <https://www.canadianinsider.com/ultramoney> (<https://www.canadianinsider.com/ultramoney>) or the INK Ultra Money website: <https://www.inkresearch.com/ultramoney> (<https://www.inkresearch.com/ultramoney>). A selection of free videos is available here: <https://www.canadianinsider.com/ultramoney-free> (<https://www.inkresearch.com/ultramoney-free>).