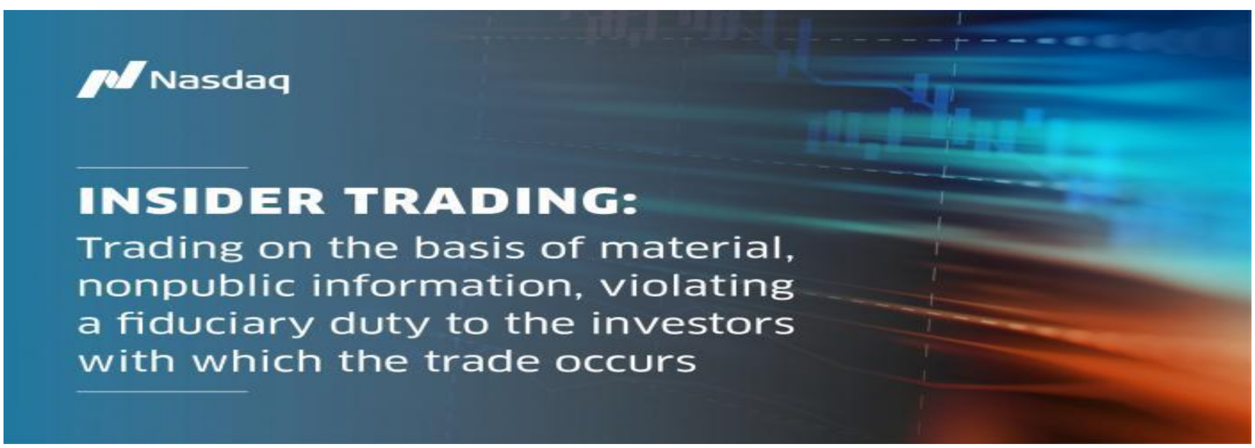
LECTURE 2

What is Insider Trading?

Insider trading is the buying or selling of a publicly traded company's stock by someone who has non-public, material information about that stock. Insider trading can be illegal or legal depending on when the insider makes the trade. It is illegal when the material information is still non-public.

Insider trading is the practice of using information that has not been made public to execute trading decisions. It gives traders an unfair advantage over others and most forms of insider trading are illegal. Many investors are tempted to make quick returns from insider trading, but doing so can be dangerous. Insider trading is routinely investigated by the Securities and Exchange Commission (SEC) and prosecuted.



Forms of Insider Trading

There are a variety of ways that insider trading can be conducted:

1. **Members of an organization purchasing a security.** Employees or members of publicly traded companies are in key positions to access information that would not otherwise be available to the general public. Some of them buy and sell securities based on this information and hope to profit from it when the news is eventually released. Employees are given stock options so there are legal instances where they can purchase shares. However, the rules are complicated and the line is often blurred between what is a legal form of insider trading and what is not.
2. **Professionals who do business with the corporation.** Bankers, lawyers, paralegals, and brokers are but a few of the consultants who have access to confidential documents of their corporate clients. They may choose to abuse this privilege as an opportunity to make a quick buck through insider trading.
3. **Friends, family, and acquaintances of corporate employees.** Corporate employees often share information within their own circles that is not shared with Wall Street and the general public. Sometimes these disclosures are made innocently, but other times they are made with the intention of allowing their friends to trade securities with an advantage that other investors would not have. Employees may give these tips to help out a friend in a tough time or they may be asking their friends to pay them a small incentive. Employees may trade through their friends and acquaintances since they are less likely to be scrutinized by the SEC than the employees themselves.
4. **Government officials.** Officials of different government agencies can gain access to confidential information through the execution of their duties. They may conduct insider trading with this information.
5. **Hackers, corporate spies, and other thieves.** Clever criminals find a number of ways to gain access to corporate information which they can use to conduct securities fraud.

KEY TAKEAWAYS

- Insider trading is the buying or selling of a publicly traded company's stock by someone who has non-public, material information about that stock
- Material information is any information that could substantially impact an investor's decision to buy or sell the security. Non-public information is information that is not legally available to the public
- Insider trading can be legal as long as it conforms to the rules set forth by the SEC

Innocent investors may accidentally conduct insider trading. There are a few precautions you can take to make sure that you are acting within SEC regulations and not putting yourself at risk of prosecution or losing any trading licenses you may hold. **Here are some suggestions:**

1. **Watch the questions you ask when you are receiving information about a security.** You need to be careful that you don’t phrase questions in a way that provokes someone to divulge confidential information before you conduct a trade. It is equally important that you don’t give the impression that you are looking for that kind of information. Doing so can get you in just as much trouble as actually conducting an inside trade.

2. **Check your sources.** If anyone you are connected to gives you information before you conduct a trade, make sure that you can find the same information through publicly available information. If you can’t find that information anywhere else, you may not want to pursue the trade.

3. **Report to the proper authorities when you receive information relevant to your portfolio that you are unsure is public or not.** This can help prove that you have no intention of discreetly using insider information and that you have honest intentions.

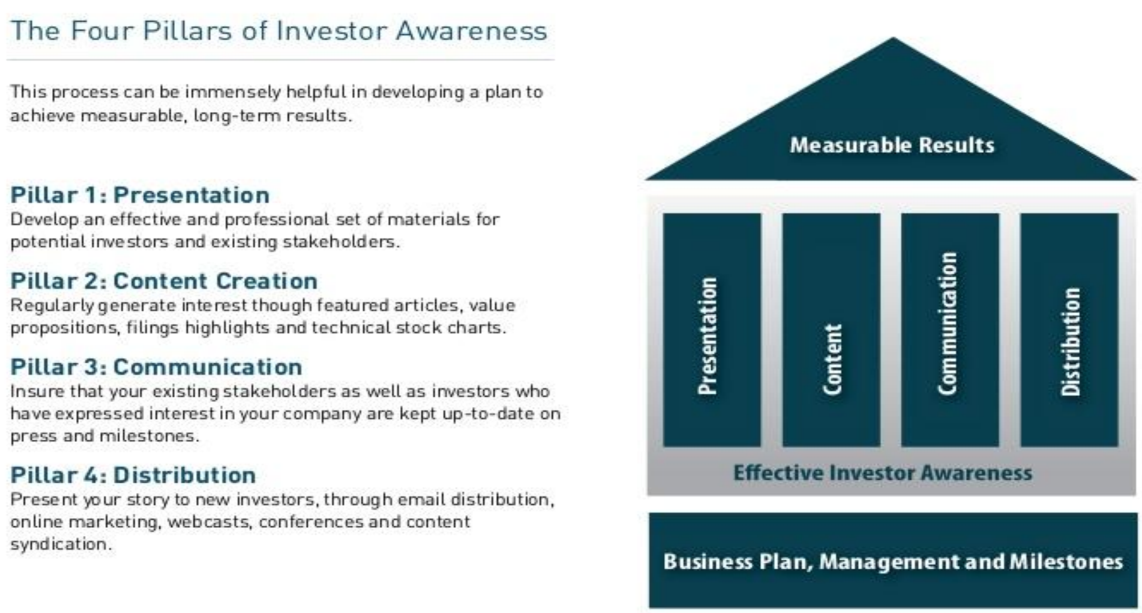
4. **Identify when someone providing information to you is violating a breach of duty.** This is a red flag that you are hearing information you shouldn’t be. Also, if they signed a confidentiality agreement and provide information, the consequences for insider trading are even worse. Make sure that you are aware of what information they pass along to you and whether or not that

information is passed in a way that is likely to violate insider trading statutes.

5. **Make sure everyone you trade with is clear on insider trading policies.** You may be held liable for the actions of anyone else on your team. Have policies and agreements in place to ensure that no one trades outside the bounds of securities laws.
6. **Be careful how you repay favors.** You may be in a situation where you have access to insider information on your employer or a company you have worked with. If somebody has done a favor for you before, make sure that you are careful how you repay that favor. Don’t offer sensitive information. If you do, you are just as guilty of securities fraud as they are.

Investor Awareness and Activism

Investor Awareness is a term used in **investor** relations, by public companies and similar bodies, to describe how well their **investors**, and the **investment** market in general, know their business.



Investor education focuses on issues relevant to the **education** and information needs of individuals who participate, or are considering participating, in the financial markets. In addition, **investor education** can also help **investors** better assess the relevance and suitability of **investment** advice.

Investment Awareness Programs

To reach out to people from all walks of life and create awareness about the benefits of investing in the capital markets,
Geojit launched a national Financial Literacy campaign in 2005. Since then, we have reached out to thousands of people and educated them about the importance of savings and investments in the capital market through our Investor Awareness sessions. This has empowered them to become responsible, knowledgeable and intelligent investors. These interactive financial literacy sessions are conducted by Geojit' experts who cover the benefits of investing in the capital markets and how to go about making wise investment decisions. In addition to these, we

regularly organise such informative seminars in association with the Government, Stock exchanges, Regulators, Depositories, leading national and regional publications to reach out to a wider audience.

7 strategies for organizing effective investor awareness programs

One of the best ways for a financial adviser to grow her practice is through Investor Awareness Programs (IAP).

Unlike the traditional way of meeting prospects individually and spending 30-60 minutes, an adviser gets to address a group of investors (typically 30-50 people) through IAPs in one go. “One to Many” way of communication is not only very cost effective but also a great way to build your credibility, firm’s brand awareness and position yourself as a domain expert.

Based on our experience from 200+ IAPs in the last one year, here are the top seven strategies which can help IFAs conduct super successful IAPs.

1) Tap the corporates and salaried class

Advisers can conduct four different types of IAPs: 1) Corporate employees 2) Associations for their members 3) Housing societies for their residents 4) Open house session by inviting clients, referrals and through word of mouth. Of all four, getting IAP opportunities in corporates tend to be easier and also more effective. HR department and management of companies have a responsibility of organizing employee welfare activities. An IAP fits in very well into this objective. The only challenge when trying for a corporate opportunity is to assure decision makers about credibility, authenticity and impact of the program content and the speaker.

2) Take help from your existing clients

Your clients are your true brand ambassadors. They have experienced your advice, your services and know the importance of proper financial planning. The best way to get a corporate opportunity is through your clients who are part of mid/senior level management of a company. Approach your clients to help you connect with their HR / Admin team who is in-charge of employee welfare activities. An endorsement from your clients goes a long way in ensuring your proposal to conduct an IAP is considered seriously and pushed forward.

3) Engage your audience

Audience don’t enjoy a typical PPT presentation. The subject itself is boring anyway for the general public. Use a PPT to help you give a structure and flow to the session. However, the speaker should make good use of games/puzzles, videos, live calculators, stories, case studies, Q&As etc. to make the program livelier and interactive.

4) Audience want takeaways, not *gyaan*

Many IAP programs content is filled with lot of charts, graphs, definitions, list of benefits / advantages, theory etc. This knowledge or *gyaan* is something audience do not connect to. It’s boring for them. People at the end of 45-90-minute session want some takeaways on which they can take action. Focus your session flow on some three key action points like buying term insurance, starting SIPs, goal based investments etc. Let the audience be able to develop their to-do list soon after the camp. Many will approach you for further help.

5) Offer something for free

After the first touchpoint during the IAP session, advisers have to figure out a way to create a second touchpoint to engage the audience and potential clients. An IAP helps you position yourself as an expert, helps you to gain trust and opens up the possibility of future dialogue. Now is the right time to let the potential clients experience your expertise/services on a one-to-one basis. Offer some kind of 30-minute free no-obligation meeting offering either a basic financial plan or financial health checkup or risk profiling or something like an existing portfolio review. This meeting should be ideally held within one week after the program at employee office premises. HR officials are open to this idea as it’s of help to their employees.

6) Take help and support from AMCs

After SEBI mandated AMCs to spend 2 basis points on investor awareness activities, many AMCs have come out with some really good IAP tools and materials. AMCs are more than happy to support IFAs by providing them with these materials without any business obligations. For example; ICICI Prudential has Health & Wealth Guide and Snake & Ladders Game, Infographics; IDFC has One Idiot movie, T Puzzle and SIP Pen; Axis MF has Global Education Guide, Lifecycle Based Guides and Healthcare Costs Guide; Birla MF has Jaanoge Tabhi tho Maanoge Guide, My First Investment Record Book etc. You can also take help of AMCs to support costs related to venue, refreshments, projector/screen etc.

7) Help people get started, even if in a small way

After the IAP is over, you will see many participants willing to get started. Many of them want to start small, say with Rs. 2,000-5,000 SIPs. They want to get a taste of mutual funds before committing to the idea fully, the way they do with FDs, gold and property. Advisers may find this kind of retail clients very small to take on. But these clients can give you a larger wallet share in future and also their investible surplus will keep growing. So find a way to onboard them, get them into your system & nurture them. Help them get started within months after the program. And it’s also a great idea to get them to subscribe to your educational newsletter which will help in “Top of Mind” recall. Someday they will come back to you.

Success with IAPs comes only with proper preparation, consistent efforts and good strategies. Advisors have to commit to conducting 4-5 IAPs before starting to see real benefits to their practice. Start with one and try to do at least 1 IAP every quarter to see the magic of this strategy in growing your financial advisory practice!

Investor Activism

Activist Investor. By Will Kenton. Updated Jun 25, 2019. An **activist investor** is an individual or group that purchases large numbers of a public company's shares and/or tries to obtain seats on the company's board to effect a significant change within the company.

The Potential Advantages to Activist Involvement

1. *Holding Feet to the Fire*
   Individual shareholders generally don't have too much pull with management. That's because they may hold only a few hundred or few thousand shares, which is likely to be a relatively small percentage of the outstanding stock. However, activist investors often have more influence for several reasons. Because they often purchase, or have the ability to purchase, (or short) large quantities of

stock, activist shareholders are powerful. They may also have a stated desire to replace the existing board. As a result, management and the board may be more willing to work with an activist. In addition, activist firms tend to garner a fair amount of press and often have a podium to air their grievances. (For more insight, see *Can You Invest Like Carl Icahn?*)
The point is that activists often have the ability to hold management's feet to the fire and demand results. This in turn can make them work harder and cause them to try to find ways to enhance stakeholder value.

2. *New Faces May Mean New Ideas*
   Clearly not every activist firm will bring fresh ideas to the table. However, those that do establish a large position over time often have ideas about how management should use the company's assets, improve operations or enhance shareholder value. To be clear, management may or may not be receptive to such ideas. However, the presentation of options and a dialog could end up being productive and may open doors of opportunity for the company that hadn't been there in the past.
3. *Demand For the Shares Could Perk Up*
   Activists may snap up a large percentage of a company's outstanding stock in a relatively short period of time. In response, other firms and/or individuals might attempt to copy these activists by buying the stock as well in the hope of turning a tidy profit. This could push the stock price up and, by extension, benefit common shareholders.
4. *Management May Bend*
   Activists can sometimes press for and/or demand certain changes from existing management. As an example, in 2006, Trian Partners pushed for fast food chain Wendy's (NYSE:WEN) to spin off its Tim Hortons (NYSE:THI) donut business as a means of increasing value. Some shareholders seemed excited by the idea, and Wendy's board reportedly decided to spin off the business. The spin off allowed Wendy's to focus more on its core business and on competing with its rivals, including Burger King (NYSE:BKC) and McDonalds (NYSE:MCD). (For more on spin offs, see *Parents And Spinoffs: When To Buy And When To Sell*.)

The Potential Downsides to Activist Involvement

1. *Selling Could Be an Issue*
   In some cases, activists may purchase large blocks of stock. When that happens, the share price may increase. However, when the activist decides it is time to unload the shares, it may logically place a significant amount of downward pressure on the share price.
2. *Activists Look Out for Themselves*
   Activist firms often try to convince existing shareholders and the media to understand and buy into their agenda, but at the end of the day, they may be looking out primarily for themselves and doing what is in their best interests. In short, it would be wise for investors (big and small) to keep this possibility in mind when listening to an activist's agenda in the press.
3. *Activists Aren't Always Right*
   Right or wrong, many individuals perceive activists as being smarter than the average investor because they have extensive experience on the buy and/or sell-side. There is a belief that activists may have important industry contacts and access to solid research. However, activists aren't always right. Their timing can be off and they can (and do) lose money or become involved in situations that take an extraordinarily long time to pan out. Investors should to keep this in mind when the temptation arises to copy an activist's buying or selling.
4. *Activists May Have a Different Investment Horizon*
   Activists can be a very fickle bunch. In some cases they may latch onto a position and hold it for years. In others, if it doesn't appear that they will win board seats or get the company to accept their agenda, they may bail at the drop of a hat. In short, it's important to note that activists may have a very different investment horizon from the average investor. They may also be more willing and financially able to accept a loss on the position. Again, investors who are looking to or are considering copying an activist (as some may do) might be wise to keep this in mind.

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