

# INSIDER OWNERSHIP AND FIRM VALUATION: A STATISTICAL ANALYSIS

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## ABSTRACT

A statistical analysis based on financial data of 1,810 Value Line companies between January 2003 and August 2004 reveals that high percentage of outstanding shares held by insiders (corporate Officers and Directors) has a positive impact upon the stock value.

## METHODOLOGY, DATA AND RESULTS

The statistical model constructed for this study is based on the generally accepted theory of common stock valuation. This empirical study is based on Value Line financial and economic data from January 2003 through August 2004 of 1,810 companies (98 industries).

Independent Variables	B	Standard Error B	t
TR: Timeliness Rank	-.054	.014	-3.92
SR: Safety Rank	-.208	.02	-10.259
B: Beta	-.381	.05	-7.651
RPE: Relative P/E Ratio	.766	.032	23.836
RR: % Retained to Common Equity	.094	.002	38.620
ROE: Est Return on Shareholders Equity	.125	.003	43.21
EG: Earning Per Share Growth 10-Year	.006	.001	4.695
TT: Total Return 1-Year	.007	.000	21.246
RS: Relative Strength 1 Week	.003	.000	5.713
MF: 1-Month Money Flow	.001	.000	3.778
PPE: Proj 3-5 Yr Relative P/E	1.028	.041	25.335
PSG: Proj Sales Growth Rate	.003	.003	1.049
PEG: Proj EPS Growth Rate	.020	.002	12.007
IH: % Insider Holdings	.004	.001	3.954
C: %Cash/Total Asset	.005	.001	4.756
BYD: Dividend Declared/Book Value	6.971	.374	18.619
I: 5-Year Treasury	.136	.027	5.034
D: %Debt/Capital Latest Quarter	-.005	.001	-7.796
(CONSTANT)	-1.938		
R Square	.92		
Adjusted R Square	.84		
Durbin-Watson Statistic	1.91		

Dependent Variable: P/B: Market Price/Book Value

## CONCLUSIONS

The percentage of insider holdings is seriously being taking into consideration by investors in evaluating public companies stocks. Companies with high percentage shares held by insiders will have a positive impact on the companies' intrinsic value. The empirical evidence suggests that high projected earnings growth, return on equity, quality earnings and balance sheet would have a positive impact upon the value of common stocks.