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BUSINESS

Stocks Surge to Record Highs, but Few CEOs Cash Out

Corporate chiefs who sell often trade when their companies are doing buybacks; a 'real governance problem'

Amazon's Jeff Bezos, PNC's Bill Demchak, Facebook's Mark Zuckerberg, TJX Cos.' Ernie Herrman.

PHOTO: STEPHANIE AARONSON/THE WALL STREET JOURNAL; PHOTOS: AP (3); GETTY IMAGES

By Thomas Gryta

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The stock market is surging, but few chief executives are selling.

The S&P 500 jumped 30% and set record highs in 2019, but only 80 CEOs in the index reduced personal holdings in the businesses they led during the year, according to a Wall Street Journal analysis. Insiders generally want to avoid sending negative signals about their companies by cashing out.

Of the corporate chieftains who pared their stakes, the majority—67 of them—did so while their companies were repurchasing shares in the market.

A company's use of cash to buy back stock typically signals that the board sees the shares as undervalued. But a sale of stock by the boss during a buyback period tends to contradict the board's message, since people generally don't sell shares that they expect to rise in value.

"I think this a real governance problem," Rob Jackson, a commissioner at the Securities and Exchange Commission, said in an interview. Mr. Jackson has conducted research showing that corporate insiders sell more of their stock immediately after a buyback announcement as compared with an ordinary trading day.

Mr. Jackson said the SEC hasn't changed its rules on share repurchases since 2003, and further transparency is needed for shareholders to know what their executives and boards are doing.

"Boards of directors who are allowing buybacks to occur without being transparent about allowing CEOs to sell into them raise real questions about the leadership of that board," said Mr. Jackson, who plans to leave the SEC this month to return to teaching.

The WSJ's analysis of CEO stock sales included regulatory disclosures of executive holdings at the start and end of 2019 as compiled by FactSet, along with share repurchase data provided by S&P Global Market Intelligence. The group of sellers includes CEOs who gifted shares to charity or who transferred stock as part of a divorce. Most sold their shares through 10b5-1 trading plans, which permit executives to schedule trades for particular times or prices.

The list of CEOs reducing their holdings last year is dominated by a pair of famous tech company founders: Amazon.com Inc.'s Jeff Bezos and Facebook Inc.'s Mark Zuckerberg. Mr. Bezos reduced his holdings by more than $38 billion, including the transfer of more than $35 billion in his divorce, along with charitable gifts and sales to fund his space venture, Blue Origin. Mr. Zuckerberg sold about $1.8 billion in shares.

Even after the sales, each CEO remains his company's biggest individual shareholder. Facebook spent $4.1 billion on buybacks in 2019, while Amazon didn't repurchase shares. Facebook shares gained 56% last year; Amazon advanced 23%.

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A Facebook spokesman pointed to previous filings detailing the stock sales of Mr. Zuckerberg and his wife to fund their charity work, including the majority of the 2019 stock sales. An Amazon spokeswoman declined to comment.

Excluding founders, the biggest CEO seller was PNC Financial Services Group Inc.'s PNC **0.33%** ▲ William Demchak, who sold nearly $24 million of company shares in 2019, according to the analysis. About $20 million of that came on a single day in early November, less than a week after the bank's stock price crossed $150 for the first time in 18 months.

In 2019, PNC repurchased about $3.5 billion of its own stock with about $1 billion of that coming in the last three months of the year. PNC shares had a total shareholder return of 41% in 2019, according to FactSet.

A PNC spokeswoman said Mr. Demchak's stock sales were his first since becoming CEO in 2013, aside from exercising options or making charitable gifts.

"This past year's sales were simply in connection with efforts to improve diversification and effectuate family planning, and are in no way inconsistent with PNC's determination that its corporate decision to buy back shares was a prudent use of capital," she said. The company recently expanded its stock repurchase program.

Nell Minow, vice chair of ValueEdge Advisors, said CEOs and other top executives shouldn't sell any company shares while in the job and for three years after they leave the company. Her firm advises institutional investors on corporate governance issues.

"The one thing that the buyback is supposed to communicate is confidence in the stock and the future," she said. "That message is completely undermined by executive sales of the stock."

The common argument that executives want to diversify investments or need to pay taxes isn't a reason to sell, she said, citing their annual compensation and leadership role. If needed, they can borrow against the stockholdings, she said.

"We want CEOs to be thinking long-term up until the day that they leave," Ms. Minow said. "The more stock they have, the better they do at looking long-term."

Some top executives don't ever sell shares, a message that sets the tone for underlings, according to experts. Jeffrey Immelt, the former CEO of General Electric Co., had such a policy.

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X Cos TJX -0.71% ▼ . CEO Ernie Herrman sold about $14 million of the retailer's stock last year, according to the Journal's analysis. Half of those sales happened on a single day, Nov. 26—the Tuesday before Black Friday, the biggest day of the holiday shopping season.

The company repurchased about $1.2 billion in stock in the first nine months of the year. TJX's total shareholder return in 2019 was about 39%.

A TJX spokeswoman said the company has repurchased shares regularly since 1997 and executives are permitted to trade in company shares only during limited windows of time.

“Mr. Herrman has sold TJX stock over many years, continues to hold very large stakes in the company, and exceeds our stock-ownership requirements,” she said, noting the stock’s return. In the past 10 years, the stock rose to above $60 a share from below $10.

Executives at public companies are restricted in how they can sell shares without running afoul of insider-trading rules and are usually careful about timing their sales to not send negative messages, said Douglas Chia, a corporate governance expert at Soundboard Governance.

Executives now are required to report sales within two days, but those transactions could be made public almost instantly, he said. Otherwise, he doesn’t think more regulation is needed.

“I’m not a fan of the government putting restrictions on when people can buy or sell,” Mr. Chia said. “The companies should have policies in place to restrict this kind of activity.”

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