CTC Investor Relations

Market News

September 2016

A monthly review of IR developments for our clients and friends. . .

Share buybacks slowing

At $1.8 billion a day, the second quarter of 2016 had the lowest value of share buybacks since the same period of 2012, according to TrimTabs Investment Research. The number of companies buying back their shares in the quarter also fell, averaging 3.3 announcements per day. This is the lowest number since second quarter 2013, and well below the 6.1 announcements a day a year ago. The trend has continued in the third quarter; the dollar value of repurchase announcements in July 2016 was down 21 percent from July 2015. Some experts warn the slowing trend could be bad news for the market, as buyback volume has had a fairly high correlation with stock prices. But others argue the strong current pace of corporate debt issuance could provide new fuel for ramping up stock repurchases, which make earnings per share look better as the number of outstanding shares falls.

From bad to worse for hedge funds

In July investors pulled an estimated $25.2 billion from hedge funds, the biggest monthly redemption since February 2009 when $28.2 billion was redeemed, according to an eVestment report. This continues a downward spiral which saw $23.5 billion withdrawn from hedge funds in June. eVestment estimates that hedge funds manage over $3 trillion. They charge some the highest fees in the money-market industry and face criticism because their performance hasn't kept pace with the market. Industrywide, hedge funds have returned an average of 1.2 percent this year through July, according to data compiled by Bloomberg, compared with a gain of about 7.6 percent for the S&P 500 Index.

Are the SEC enforcers getting soft?

Through the first three quarters of its 2016 fiscal year—October 1, 2015 through June 30, 2016—the Securities & Exchange Commission has filed 508 enforcement actions, down 8 percent from last year, according to Cornerstone Research, an economic and financial consulting firm. The drop in cases accelerated in the SEC's April-June fiscal third quarter, with 160 cases filed versus 238 for the same period last year. Experts don't see that trend continuing into the fourth quarter, when enforcement actions usually spike. They acknowledge that enforcement actions in fiscal 2016 will fall far short of 2015 numbers, but note that 2015 was a record year. They also point to fewer new cases related to the 2008 financial crisis, and the constraint of having two vacancies on the five-member Commission while nominees await Senate confirmation.

Nickel-ticks for small caps set to begin next month, despite complaints

Starting October, 1,200 small-cap stocks will be quoted in five-cent increments, instead of penny increments, during a two-year test. It's intended to increase market makers' potential profits from trading these stocks and in turn stimulate more trading in often-illiquid small caps. But market makers like Bats Global Markets say the process is too complex. Most nickel-tick trades will be rejected by trading desks, Bats says, because they're not prepared or because they will cost too much. Congress has ordered the SEC to try to stimulate trading in small caps, but market makers say that a different tick size will make small-cap trades so complex that the extra costs will eat up their profit potential.

MarketWatch: Earnings releases we like

After blasting issuers of some of the worst earnings releases to cross their screens last May, *MarketWatch.com* editors have returned with praise for certain elements of releases they liked. Their key do's:

All in one - A full release, like Kohls, with all financial tables via a reputable newswire, versus truncated versions e-mailed with web links to details. And yes, they know it costs more that way.

Most recent to the left - Some companies put the most-recent numbers on the right column, rather than the left, which is confusing and can lead to errors. Like Tyson Foods, keep the newest on the left.

Fire away - Bullet points help readers find important information fast. Use lots, and highlight GAAP, EPS and revenue at the top, like Coach Inc. does.

Close the non-GAAPs - If non-GAAP numbers are essential, use just one, and not three of each type as some have done. Use the one that you guide analysts to, just as United Technologies did.

Words matter - Interesting jargon-free text can help readers understand what the numbers mean and the forces behind them. What worked? What didn't? They liked Toro Co.'s color last quarter.

The math is only getting worse

In our July issue, we provided a heads-up on inflated dividends and share repurchases among S&P 500 companies (*Dividends may be unsustainable*). In the first half of 2016, companies returned 112 percent of their earnings to shareholders through such buybacks and dividends. That is the highest since 2008, well above the 82 percent average over the past 15 years. Moreover, this is happening over the last four quarters as S&P 500 companies have experienced shrinking profits and tepid sales.

Study shows activists can be a plus for management, as well as their investors

Don't be too quick to judge activists as folks looking only for a quick buck from a company and its investors. The most comprehensive study on corporate activism, covering 4,850 activist campaigns over the past 21 years conducted by two Texas A&M professors, reports that the interventions not only created a short-term boost in stock price but also superior stock performance and stronger fundamentals over the long term. Shares of activist-targeted companies had a 10.6 percent average return in the two years following the campaign. In cases where an activist campaign led to the sale of all or part of the target, investors got an astounding two-year return of 21.6 percent. The authors used nine accounting measures to capture changes in profitability, leverage, liquidity, and operating efficiency of the companies studied. A good result on each measure earned one point, and a bad result earned zero points. The scores of targeted firms dropped from a mean of 4.36 to 4.13 in the two years prior to an activist event, then rose in the succeeding two years to 4.43. The authors regard those patterns as inconsistent with the contention that activism induces "short-termism" at target firms.

Barnes & Noble not an open book, disclosure-wise

EDGAR-watcher *footnoted* waited patiently for a year before Barnes & Noble disclosed how much severance it had paid a former CEO who left in August 2015. The proxy B&W filed on July 29, 2016 totaled it up: $15.7 million. In mid-August this year, B&W decided that the new CEO, Ronald D. Boire, wasn't the right replacement, and he also left. Editors at *footnoted* naturally wondered how much walking-away money Boire would get, and when shareholders would find out. B&W's 8-K announcing his departure wasn't much help: "Pursuant to his employment agreement, Mr. Boire is deemed to have resigned from the Company's Board of Directors as a result of his departure," it said, leaving *footnoted* wondering whether Boire left "for cause" or "without cause." B&W hadn't responded to *footnoted's* call on that last week. Will avid readers of B&W's filings, like kids who used to line up outside B&W stores for the next Harry Potter novel, have to wait a year to find out?

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