CTC Investor Relations

Market News

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

Study shows investor conferences work…to a point

Companies that participate in investor conferences experience a 1.4 percent to 2.8 percent increase in their stock liquidity, better if the company had less visibility in the prior quarter. This is according to just published research conducted by Binghamton University and the University of Maryland that reviewed 4,800 conferences between 2005 and 2010. The increase in liquidity is the greatest when companies present at large industrial conferences, which the study authors attribute to analysts getting a more comprehensive overview of the industry. The study also showed benefits of conference attendance are limited, with the sweet spot at one or two conferences per quarter. At four to five conferences researchers started to see detrimental effects, as investors feel conference attendance distracts management from the business. They also found that the spike in the liquidity is short lived, lasting only a quarter.

To what extent do companies produce internal consensus estimates?

Internal sell-side consensus earnings estimates were conducted either quarterly or semi-annually by 79 percent of 650 global companies participating in a recent study by *IR Magazine*. The majority of participants said they omit forecasts as they see fit, mostly due to out-of-line numbers. Larger companies were more likely to prepare internal consensus estimates due to their financial ability to hire outside sources to complete the time-consuming task. Almost half of European companies publish their internal consensus. Only 9 percent of U.S. companies do, due to U.S. securities regulations.

GoPro's Safe Harbor claim is a no-go

A court case involving cam maker GoPro, Inc. has reopened the legal debate over "on track" forecast statements and their Safe Harbor protection. The California court decided that a statement by GoPro's CFO that "We believe we're still on track to make [GoPro's financial guidance] as well" was not a forward-looking statement eligible for Safe Harbor protection because the phrase "we believe" made it a statement of present opinion about "his and GoPro's existing state of mind." The court said the statement should be assessed against the Omnicare standard, under which an opinion is potentially false if not genuinely held, or if the speaker knew but left out material facts about whether it was true. Some courts have held that "on track" cannot be distinguished from the underlying projection and the Safe Harbor rule applies; other courts have concluded that "on track" is a statement of present condition.

Perpetrators fare worse when a whistleblower snitches

Average sanctions for financial misrepresentation violations increase from $8.7 million to $30.7 million when a whistleblower is involved, according to a study of whistleblower cases between 1978 and 2012. Individual prison time went from 22.8 months to 41.9 months. Fines on employees involved in the fraud went from $22.8 million to $64.8 million. Authors of the study warn that the numbers are skewed due several large penalties, but still prove a point. The study showed the business equipment sector committed the most investment fraud during the period, accounting for nearly a quarter of all infractions. The financial services sector was a distant second, with 12 percent.

Class-action securities suits coming at a record pace

At the current pace, 9.5 percent of the 4,411 U.S. listed companies will face a securities suit this year, up from 5.6 percent last year and the highest rate since securities suits were first tracked in 1996. During the first six months of 2017, 131 class-action suits were filed, not including merger and acquisition challenges. The rise in cases is primarily caused by enterprising plaintiffs from smaller law firms bringing weaker and smaller cases into play. Their strategy is that companies will settle early to make the problem go away. However, dismissal rates of cases brought by the emerging firms averaged 60 percent from 2012 to 2016, and dismissal rates in 2017 indicate even fewer successful suits.

Companies are opening up about their audit committees

Despite no new disclosure requirements, companies are opening up about their audit committee to shareholders. The percentage of companies explicitly stating what their audit committee is responsible for went from 45 percent in 2012 to 87 percent in 2017. During the same time period, disclosures about the factors audit committees use to assess auditors' qualifications and work quality increased to 56 percent from 17 percent. The Ernst & Young study says the additional disclosure is in response to investors' requests that audit committees disclose more about their explorations into the work of auditors and their role in auditing financial statements.

Proposal to block proxy voting rights for index funds as good-governance move

A University of Chicago law professor argues in an upcoming *Journal of Corporation Law* article that revoking share voting rights for index funds makes sense in an increasingly asset-concentrated market. Dorothy Shapiro Lund said that American investors adopting passive indexing strategies are hurting firm governance, shareholders, and the economy. In particular, the low-cost index funds passive investors choose cannot afford anything more than a one-size-fits-all approach to governance, allowing bad governance to persist. The author proposes that lawmakers restrict passive funds from voting at shareholder meetings, or at minimum pass through voting rights to shareholders.

Equity brokerage business down 40 percent since 2009

While the S&P 500 increased 3.5 times since 2009, brokerage commissions dropped 40 percent. Just in the 12 months through the first quarter, commissions dropped from $9.7 billion to $8.4 billion, or 13 percent, according to a report by market consultant Greenwich Associates. Commission rates have steadily trended down during the period. In addition, brokerage transaction volume has fallen as steadily rising stock prices and lower volatility reduce active turnover, and as U.S. equity assets shift into passive funds. The brokerage industry also directs more trading volume to higher-priced 'high-touch' trades executed through broker sales traders, which is the dominant execution channel used by buy-side traders. The good news for brokers is the steady decline in commissions since 1975 seems to be over. With volumes remaining flat or down, there is no room to accommodate rate reductions.

Fewer company conference calls mention bottom-line benefits from Trump policies

The mention on conference calls of the Trump administration and the possibility of its legislative successes helping companies' bottom lines was common six months ago. Nearly half of the 371 S&P companies conference calls FactSet reviewed mentioned either "administration" or "Trump" in their fourth quarter calls. Most were in reference to the administration's proposed tax regulations and trade policies in hope they would boost their bottom lines. Second quarter conference calls for the same companies saw a 76 percent decline in the mention of the administration during their earning calls, with "administration" or "Trump" only being used in 12 percent of the calls. FactSet attributes this to declining confidence that President Trump's policies will be enacted in the near future.

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