CTC Investor Relations

Market News

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

The bull roars as we enter 2018, but what's ahead?

The S&P 500 posted record highs 61 times since last January, the third most since 1952, and returned more than 20 percent to investors. The drivers, according to Credit Suisse, were a synchronized global recovery, lower volatility supporting overall higher multiples, and stable wages buoyed late in the year by a promise of a hefty corporate tax cut. But Wall Street strategists warn that the aging bull is slowing down. Overall they see market gains being cut in half at best in 2018 with market projections ranging between 4 and 10 percent growth even after factoring in the lower corporate tax rates. Their reason is the nine-year bull market, the second longest since World War II. Analysts see a considerable market slowdown in the second half as this bull hits the end of his road.

SEC Taking More Than Token Interest in ICOs

With hundreds of Initial Coin Offerings cascading out of the fertile fields of cryptocurrency purveyors this year, the SEC is issuing progressively sterner warnings to investors and issuers about the line dividing investible "tokens" from securities subject to its regulation. The SEC's so-called 21(a) Report sought to draw the brightest possible line by defining the utility characteristics that distinguish a currency from a security. Chair Jay Clayton is warning that merely defining a pre-currency, or token, as a "utility" token, as many promoters are doing, does not make it one. When an offering implies value based on the efforts of others, the SEC holds it is more likely a security under U.S. law. As if to emphasize its suspicions, the SEC halted an ICO as an unregistered securities offering the same day Clayton issued his warning.

Tax law creating immediate disclosure concerns

Law firms are advising SEC clients about their immediate disclosure obligations under the 2017 tax reform act, including new 8-K requirements and MD&A content. The SEC's guidance about tax-asset impairments under the law likely exempts most firms from an impairment-related 8-K under Item 2.06, but attorneys advise a review about disclosures of tax impacts under Item 2.02 in the event of any financial presentations prior to December-quarter earnings releases. MD&A advice focuses on "known trend or uncertainty" impact of the lower corporate rate, even if the company rarely references future tax rates in its filings; the effect of the tax rate change on significant tax assets and liabilities; and any changes in repatriation plans. Most firms advise that earnings releases and earnings calls include more details about future tax rates, including in any slide support.

To investors, the new revenue recognition rules are a non-event

As companies work to get up to speed on the new revenue recognition rules, investors see it as a non-event. They don't expect changes to GAAP to have material effect on financials. Revenues recognized on customer contracts and sales compensation expenses will cause top and bottom lines to rise or fall, but those effects won't last or have much impact. Rather, revenues or expenses will merely move from one reporting period to another. After a few years, results will be comparable to prior periods.

Further proof companies are punished by investors for filing late

Companies that submit an NT (Not Timely) filing to the SEC requesting a delay for filing financial statements see a mean reduction in their stock price of 2.93 percent for 10-Q statements and 1.96 percent for 10-Ks within five days after the notice. Companies that miss a second deadline see a 4.12 percent price drop in both cases. But the long-term price effect is most telling. The decline averages about 13 percent during the three quarters following the delay filings, or about five times greater than the initial five-day drop, according to a study of 2,115 Form NT filings submitted over a nine-year period. The study was conducted by faculty at New York University and the University of California Berkley, and published in the December issue of the American Accounting Association journal.

ESG is growing concern for investors

Environmental, Social and Governance concerns (ESG) and how companies deal with them has become a hot button for investors. From carbon footprint to diversity practices, the Global Sustainable Investment Alliance says $8.7 trillion in assets, or nearly 22 percent of total assets invested in U.S. markets, are reflected in ESG positions, up 33 percent in two years. Morningstar Research's database of more than 35,000 funds are screened using more than 100 ESG criteria. This growth will accelerate in the coming year, as U.S. Department of Labor restrictions prohibiting retirement plans from considering ESG factors expire in 2017.

A peek into the board room

PWC's Governance Insight Center studied the trends of boards this past proxy season. While engagement between board members and investors is a relatively new concept, they found two out of five board members said they had direct engagement with investors during the past 12 months. Directors felt it is important to engage with the company's investors when an activist investor takes a position, if there is a significant crisis, or if there's a negative say-on-pay recommendation by a proxy advisory firm. They also found a dramatic shift in directors' perception of investors. More directors see investors better prepared to offer valuable insight, which makes them more receptive to investors' suggestions and ideas. But while directors have become more receptive to investors, they have become more cynical about their fellow directors. Most want board members to be evaluated on a regular basis. Their top concerns of fellow board members: they overstep their role, are reluctant to challenge management, or their interaction negatively affects board dynamics.

DOJ warning on rules guidance could ripple to SEC

The SEC's practice of issuing guidance on common topics that crop up in the wake of new rules has long been under fire from anti-regulation groups, who argue that guidance is just rulemaking in another form. Recently, the Justice Department announced that it would stop issuing guidance on federal laws and regs under its purview, and adds that it will look through prior DOJ guidance and rules for repeal or modification candidates. The SEC isn't bound by the DOJ policy, but based on the Government Accounting Office's recent decision that leveraged lending guidelines were actually rulemaking subject to the Congressional Review Act, the SEC and other agencies are feeling the chill.

NYSE limits close-of-market releases

In December, the SEC approved a new NYSE rule on the release of material news after the official 4 p.m. Eastern close of trading. The NYSE rule says companies listed there may not issue material news after the end of the trading session until the earlier of the posting of its official NYSE closing price, or five minutes after the official closing time. The NYSE says a 4 p.m. rule can interfere with specialists' closing auctions. Releases to comply with Reg FD's rule on non-intentional disclosures are exempt.

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For investor relations or market questions, or to discuss our consulting services, please contact us at (937) 434-2700, or e-mail ctc@irbyctc.com