CTC Investor Relations

Market News

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

Fourth quarter is sure to be a bust, thanks to the new tax law

The strong stock market and a Thomson Reuters I/B/E/S poll of analysts foretold strong fourth quarter earnings, on pace for the best profit growth since 2011. Then the new tax bill passed, wreaking havoc on fourth-quarter earning outlooks. Many companies will record late-breaking expenses—some required and some at their discretion. On the required side, companies will need to write down the value of deferred tax assets. With tax rates dropping from 35 percent to 21 percent they won't be worth much going forward. Also, companies will have a one-time tax on stockpiled foreign profits. They will be allowed to pay the tax over eight years, but are required to recognize it in the fourth quarter, when the tax bill was signed into law. On the discretionary side, companies have the incentive to move expenses into the quarter to lower their 2017 tax bill, with lower rates coming into effect in 2018. Relax – it's great news to companies and investors. The new tax law will deliver a big boost to earnings starting in 2018.

When is it the best time to report earnings?

This is a question answered by a review of 70,000 quarterly earnings announcements between 2014 and 2016 by a team at Northwestern University Kellogg School of Business. Ninety-five percent responding believe it is best to report during non-trading hours. But those 95 percent were evenly split if the results should be published before or after the market closes. That answer lays in the market reaction. Earnings released before trading opens are associated with greater volatility in stock prices for five days after the release than those announced after markets close.

Cybersecurity is top concern for boards in 2018

According to a survey done by law firm Akin Gump Strauss Hauer & Feld, cybersecurity is the major concern of boards after major cyber breaches in 2017, including those at Equifax, Uber, Yahoo and the SEC. The Commission urges companies to form a committee responsible for overseeing cybersecurity risk and wants boards to have at least one cybersecurity expert or consultant. Other concerns are social responsibility, board composition, providing investors with a concise business strategy, listening to activist and other investors' concerns, and staying on top of the new SEC rules and regulations with the new administration's significant policy shifts.

Whistleblowers trumpeted in another record year in 2017

The SEC's 2017 Annual Report to Congress showed it awarded almost $50 million to 12 whistleblowers during the fiscal year, including three of the 10 largest awards granted since the initiation of the program in August 2011. In November there was a $20 million award; there were two large awards in January, the first $7 million and the second $5.5 million. Nearly $160 million has been awarded to 46 whistleblowers since the start of the program, whose tips helped the commission or other enforcement agencies bring successful enforcement actions that led to over $975 million in total monetary finds, most of which have been or will be returned to defrauded investors.

Quarterly reporting leads to short-sightedness

Mandatory quarterly reporting can lead to short-sighted focus on near-term results, according to an academic study by Duke University and City University of London published in February's *The Accounting Review*. Drawing from public companies around the world, the study found when new regulatory mandates force companies to increase the frequency of their financial reporting, they reduce their annual capital investments by approximately 1.5 to 1.9 percent of their total assets. Their finding was supported with the recent decision by the EU and UK to abandon requiring quarterly reporting for listed companies. Companies switching to the longer reporting intervals saw annual sales grow 3.5 percent greater than those that didn't, while return on assets grew by 1.5 percent. They also found investment declines after reporting-frequency increases.

Fink says be socially responsible, or face the consequences

Over the past several years, analysts and portfolio managers have been harping on the need for public companies to be attuned to societal factors. Larry Fink, founder and CEO of BlackRock, an investment firms with approximately $6.3 trillion under management, took it to a whole new level last month. He told CEOs of companies where Blackrock was a major investor to not only deliver good financial performance, but also show how they are making positive contributions to society – or else. "Companies must benefit all of their stakeholders, including shareholders, employees, customers and the communities in which they operate," he said. In response, billionaire investor Sam Zell told CNBC, "I didn't know Larry Fink had been made God."

SEC warns against 'blockchain' names

Given the limited number of legitimate cryptocurrency companies or Bitcoin-boosting SEC-sanctioned ETFs or listed stock, some small- and microcap public companies are doing things like "pivoting" to blockchain technology or even just changing their name to something related to crypto. SEC Chairman Jay Clayton advised them to reconsider. "The SEC is looking closely at the disclosures of public companies that shift their business models to capitalize on the perceived promise of distributed ledger technology and whether the disclosures comply with the securities laws, particularly in the case of an offering," he said. An example: A beverage company called Long Island Iced Tea changed its name to Long Blockchain Inc. and the stock spiked 500 percent in a day.

U.S. investors continued to turn passive in 2017

Traditional active investment managers continued to lose ground to cheaper passive alternatives, principally exchange traded funds. Of note: Equity mutual funds lost $153 billion in outflows in 2017, while equity ETFs picked up $348 billion. And, ETFs that gained market share cost 0.19 percent per year, on an asset-weighted basis, while losers cost 0.26 percent. Top choices are ETFs that focus on a single market segment, are passively managed, cheap, and simple. This lends itself to building portfolios with just a handful of ETFs.

Study shows that SEC reviewers have unique styles

A trio of finance professors from Michigan State, Arizona State and the Institute of Science and Technology in Korea, have concluded that there is a significant variance in the style of reviewers who examine SEC filings, which results in different comment-letter approaches. Reviewing 5,597 comment letters issued over a 10-year period, the researchers found that SEC reviewers take different approaches to their work, and those variances have a statistically significant effect on review outcomes. The researchers also found that the tougher the review, the better the reviewed companies seemed to perform over time.

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