CTC Investor Relations

Market News

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

Volatile market, rising rates and political uncertainty promote dividends and share buybacks

Despite continued economic growth and a hefty tax cut, stock indexes in 2018 have failed to follow last year's strong performance. The S&P is up only several percentage points as markets experience a resurgence of volatility. So companies are leaning on dividends and stock buybacks to boost returns to their shareholders and promote interest in their stock. Seventy-one percent of listed companies are expected to increase dividends in 2018, according to JPMorgan Chase's research, the largest number in over a decade. The annual pace of dividend growth for S&P 500 companies is predicted to be eight percent, according to FactSet. JPMorgan Chase predicts share buybacks will increase to $800 billion from $530 billion, yielding about five percent to investors. They prefaced their prediction with a reminder that returns on dividend increases and buybacks are typically short-lived.

Early pay-ratio data revealing a mix of methodologies

The first-ever pay-ratio disclosures in proxy statements are in for more than half of the companies in the S&P 500, and they show what most anticipated. Companies in the same industry are adopting different calculation methods, with most gravitating to methods that ignore the substantial value of CEO equity awards, focusing on cash compensation only. Through April 27, according to comp consultant Pearl Meyer & Partners, the median pay ratio is 148:1, and an average median total employee comp of about $79,000**.** As expected, the highest industry-average pay ratio reported so far is the low-paying consumer discretionary sector at 434:1, followed by consumer staples at 246:1. The lowest are in utilities (64:1) and energy (84:1), where wages and salaries are higher.

Analyst/investor-day events are behind investor-contact gains

Management face time with investors is rising, according to Wall Street Horizon, primarily because of an increase in analyst and investor days. Direct meetings with investors rose 23 percent in 2016 versus 2015, as more companies staged the annual, invitation-only events. Wall Street Horizon said the increase in meetings also shows more interest in delivering management's message directly, versus filtering it via sell-side analysts, better technology to arrange remote meetings, and fewer sell-side analysts available to arrange meetings.

Lack of transparency can pay off for investors when it's a tax footnote

When you combine tax avoidance through aggressive tax planning with difficult-to-read footnotes, you draw a thumb's up from investors, according to a research paper from Auburn University published in the spring issue of *The Journal of the American Taxation Association*. Analyzing 11,700 footnotes from annual reports published between 2000 and 2014, researchers found the most aggressive tax avoiders with low readability footnotes enjoyed a 12.4 percent boost in their ratio of market value to book value, known as Tobin's Q ratio. In contrast, those "aggressive tax avoiders" with clear and straightforward footnotes lost 3.4 percent.

Investors urged to ask about long-term outlook on earnings calls
FCLT Global, the Blackrock-backed non-profit pushing issuers to focus more on their long-term performance, urged investors to reciprocate with more questions on long-range profit drivers. Rather than probing for insight about the next quarter's results, FCLT Global urges analysts to take heed of findings that the majority of present equity value lies in estimates of cash flows three years or more into the future. Questions about the long term could cover quarterly signs of progress toward long-term goals, business segments with the most long-term growth potential, assessment of risks to long-term performance, and the potential long-term payoff of current capital allocation decisions.

First whistleblower award under "safe harbor" rule is $2.2 million
The SEC announced several weeks ago the first whistleblower award under its "safe harbor" rule governing reports of wrongdoing sent first to other federal agencies. The recipient, described only as a former company insider, received $2.2 million. The law bars the SEC from disclosing information that might identify a whistleblower. Under the new rule, whistleblowers remain eligible for awards even if they approach another federal agency first, so long as they resubmit to the SEC within 120 days and cooperate in any subsequent investigation. The SEC has awarded $264 million to 54 people since the first whistleblower award in 2012. Awards can range from 10 to 30 percent of the money collected in a reported violation when the penalty exceeds $1 million.

New SEC guidance limits shareholders' resolutions
Last November, the SEC ruled that companies can reject a shareholder proposal on an issue that deals with a matter relating to the company's "ordinary business operations," unless the proposal also focuses on "sufficiently significant" policy issues. Under the new guideline, SEC staff would defer to corporate boards the determination of whether the resolution focuses on "sufficiently significant" policy issues. Not surprising, 10 of 11 requests on proposals on environmental matters have been blocked this proxy season under the new rule. Shareholder rights advocates are concerned that the SEC is eroding the viability of the shareholder proposal process.

2008 tax law pulling money from hedge funds at a bad time
A net $9.8 billion came into hedge funds in 2017, a very small amount when you consider the industry assets add up to $3.2 trillion. And most of the allocations to hedge funds are coming from redemptions from other hedge funds, according to fund marketer Agecroft Partners. Most of the funds have faced multiple years of subpar performance, while many funds also faced big tax bills last year. A 2008 tax rule required money managers who parked fees offshore to declare the money and pay taxes on it. Congress gave them until their 2017 tax bill to pay. Some hedge funds complied over the last decade, but most waited as long as possible to benefit from tax-deferred compounding. Now they're forced to pull out large sums from their funds to pay up.

"Shareholder" vs. "stockholder" – what difference does it make?
Does the term you use to identify your owners make any difference? Some data suggests it's a "tell" about whether the company is vulnerable to an activist attack, or has survived one in the past. "Stockholder" remains No. 1, mainly because it's the term Delaware prefers for its registered corporations. Institutions, however, have come to resent the passive implication of the term, and refer to themselves as "shareholders." Larry Fink, CEO of megafund Blackrock, uses the term "owners" to describe entities like his, and urges his peer firms to do likewise. But data on director votes shows that 60 percent of issuers whose directors drew the most "no" votes in 2017 used "stockholder" rather than "shareholder."

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