

Market News

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

What is stock research worth – and who will pay for it?

Just as securities firms are slashing research budgets and laying off thousands of securities analysts comes a new study that shows their work doesn't matter much anyway. In contrast with prior findings that changes in analyst recommendations led to average 4 percent price changes in the direction of the recommendation, researchers from the University of Pittsburgh and Tulane University looked at more than 44,000 changes in recommendations between 1997 and 2003 and concluded the actual effect was minuscule — about 0.03 percent. Other studies have looked at longer timeframes. The new study focused on share prices 20 minutes before and after the issuance of a recommendation. Larger share-price movements detected by previous studies reflected the effect of other news, they said. The research also arrives just as a \$433 million subsidy to the independent research industry is expiring in July. The program, part of the 2003 global securities settlement, required each of 10 major securities firms to distribute the work of no fewer than three independent research firms to their customers.

Supreme Court to rule on PCAOB's fate

The U.S. Supreme Court has agreed to review the constitutionality of the Public Company Accounting Oversight Board, which was created under the Sarbanes-Oxley Act. The justices will consider whether the existence of PCAOB violates the Constitution's separation-of-powers principle. The Free Enterprise Fund, a policy group that promotes small government, took on the case of a small accounting firm that the board had inspected and critiqued. The group contends that because the regulator was not formed legally, it has no standing to perform such inspections or make such criticisms. If the plaintiffs succeed, Congress would need to revisit the Sarbox provision that created PCAOB, and could revise other parts of the law.

SEC proposals to give shareholders more nominating rights

After years of debate on shareholders' right of access to the proxy-statement slate of Board nominees, the SEC has proposed rules that could give them that right, potentially changing the makeup of public company boards. The proposal would include shareholder nominees in company proxy material if they own at least one percent of a company with a market cap of \$700 million or more; three percent of companies between \$75 million to \$700 million, and five percent of a company smaller than \$75 million. Shareholders could aggregate holdings to meet thresholds, but must have held their shares for at least one year and hold the shares through the election date. Also, they would be required to certify they are not holding their stock for the purpose of changing control of the company, or to gain more than a minority representation on the board of directors. Public comments on the proposal are being accepted through July 19.

'Hybrid' boards don't hurt stock performance

Recent research on Boards that include minority shareholder representation shows that the effect on relative returns has been neutral to positive, according to an analysis of such events by the Investor Responsibility Research Center Institute and PROXY Governance Inc. The study looked at 120 such hybrid boards formed from 2005 through 2008. Shareholder value creation under hybrid boards improved by 19.1% at such companies (16.6 percentage points more than peers) during the first year, and up 21.5 percent, or 17.8 percentage points, over three years. The majority of the gains came during the three-month proxy contest period, prior to the minority representatives gaining Board seats. After the contest period, three-year share price gains for the companies in the study averaged 0.7 percent, or 6.6 points worse than peers.

Banks trigger record month in equity offerings

In what are otherwise grim times for equity underwritings, banking companies seeking to boost their capital in line with tougher federal standards triggered the largest month for share issuance ever in the United States, according to Thomson Reuters. Fueled by secondary offerings such as Wells Fargo's \$8.6 billion follow-on the day after the government released its stress tests, total equity capital issuance in the United States came to \$48.8 billion in May. Year to date, the volume of secondary share issues is 40 percent ahead of where it was at this time last year. In contrast, there were only three IPOs in May, totaling \$490 million, down 94 percent year to date.

Public: SEC is worse than the IRS

The SEC is now viewed unfavorably by a remarkable 55% of respondents to national survey of potential jurors, compared with 46% with unfavorable views of the IRS. The study conducted early this year by a corporate litigation group, *Litigation PostScript*, found that the SEC is the most negatively viewed federal agency of the six included in the survey, with its percentage of unfavorable ratings up 20 points since 2006. The survey preceded the appointment of Chairman Mary Schapiro, and the SEC's recent more aggressive pursuit of fraud cases.

SEC strengthening rules on staff's security trades

In the wake of reports of improper trading by SEC staff, Schapiro outlined a series of measures to strengthen the agency's internal compliance program. Employees must clear security transactions with the agency; no employee may own securities in exchanges, transfer agents, broker-dealer or any other publicly traded firm directly regulated by the Commission; brokers of SEC staffers must provide trade confirmation statements and certify that they do not possess non-public information. The Commission is developing a compliance system to track, audit and oversee employee securities transaction and financial disclosures in real time.

XBRL tagging may be restricted

The SEC is considering requests to prohibit issuers from adding too many new fields in their XBRL filings. The 3,500 official tags for financial statements are a starting point. Users can also create additional extensions to tag unique line items, such as a specific product's revenue. Critics say that too many tags makes data comparisons limited and unreliable. SEC interactive data chief David Blaszkowsky has promised to review the appropriateness of extensions.



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