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Barrons Magazine

# A Decade After Relaxing IPO Rules, the GOP Wants to Loosen Again. Some Academics Offer a Warning.

By Bill Alpert
814 words
23 April 2022
08:14
Barron's Online
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English


April marks the 10th anniversary of a law that relaxed rules for small stock offerings. Whether the Jobs Act of 2012 was a good thing depends on whom you talk to.

On April 5, GOP members of the House Financial Services Committee gathered to praise the bill's easing of disclosure requirements and allowance for crowdfunding by "Main Street" investors. A report by committee Republicans argued that the act revived initial public offerings and let consumers "get in early with tomorrow's success stories." The committee's top Republican, North Carolina's Patrick McHenry, proposed further loosening.

A recent study of 582 IPOs, however, takes a different stance. The study notes that prior research failed to account for the bull market that took off after the law took effect. The "myopic focus on quantity without thinking about quality had bad consequences for the savings of everyday investors," says one of the authors, University of California, Berkeley's Haas School of Business accounting professor Panos Patatoukas.

Patatoukas and co-authors Omri Even-Tov and Young Yoon found that Jobs Act stocks underperformed those bound by the old rules—and the market overall. The Jobs Act issuers sold shares at significantly higher prices than other IPOs, "even though they have more speculative valuation profiles and are more likely to destroy long-term shareholder value for IPO aftermarket investors." A 2018 Barron's article also found a low level of quality in many of the IPOs. Barron's asked McHenry about the Haas study but got no response. He has often said that small investors are smart enough to tell good deals from bad.

Last Week

Setting the Table

Goldman Sachs posited a 35% chance of recession in the next two years. Natural-gas prices rose, fueled by European demand and cold weather in North America. Treasury 10-year real yields went positive for the first time in two years. And the IMF cut its global growth forecast to 3.6%. But yields spiked and stocks plunged after Fed chief Jerome Powell murmured about a 0.5% rate hike. And there went the week: The Dow industrials fell 1.84%, to 33,819.04; the S&P 500 lost 2.75%, to 4271.94; and the Nasdaq Composite shed 3.83%, to 12839.29.

The Earnings Beat

Bank of America saw profits slip by 12% but beat on revenue, and the stock rose. Charles Schwab missed expectations, blaming lower trading revenues, and fell 9%. Netflix lost 200,000 customers—its first loss since 2011—and warned of more; shares plunged 35%, and Bill Ackman bailed for about a $400 million loss. IBM and Procter & Gamble beat, and so did Johnson & Johnson, though it tempered its forecast. Tesla blew the doors off.

China Headwinds

China grew 4.8% in the first quarter, but consumer spending fell by 3.5% in March, fallout from Covid lockdowns. The IMF cut its growth forecast to 4.4% from 5.5%. Meanwhile, the government cracked down on livestreaming unauthorized videogames, sending tech stocks lower, and a baby bust deepened China's demographic woes.

War for the Donbas

Ukrainian forces, battling from a steel plant in Mariupol, refused a Russian surrender deadline on Sunday; Russia then changed the deadline, with the same result, and President Putin declared victory. Russia attacked along the 300-mile Donbas front. Russian central bank head and mayor of Moscow separately warned that sanctions would soon bite—Putin disagreed—and the U.S. is considering naming Russia a state sponsor of terrorism.

Florida: On Masks and Mice

A federal judge in Florida blocked the Centers for Disease Control and Prevention's air travel mask mandate. The Department of Justice appealed. In a separate controversy, Florida passed a bill punishing Walt Disney for opposing the state's "Don't Say Gay" school policy.

Annals of Deal Making

Twitter wheeled out a poison pill against Elon Musk. The pill would dilute Musk's stake by selling discounted shares to shareholders if he bought 15% or more without board approval. Musk said he had financing commitments for $46.5 billion, $21 billion of his own money, $25.5 from Morgan Stanley and others. Musk cryptically tweeted he might consider a tender offer. The New York Post reported Thoma Bravo was mixed on participating…Blackstone said it would buy student-housing company American Campus Communities for $12.8 billion…A KKR-led group offered to buy Australia's Ramsay Health Care for $15 billion...Warner Bros. Discovery, its deal with AT&T recently closed, said it would shutter CNN's brand-new streaming service.

Write to Bill Alpert at william.alpert@barrons.com

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