US equity markets have never been safer

No trading suspensions, no drama

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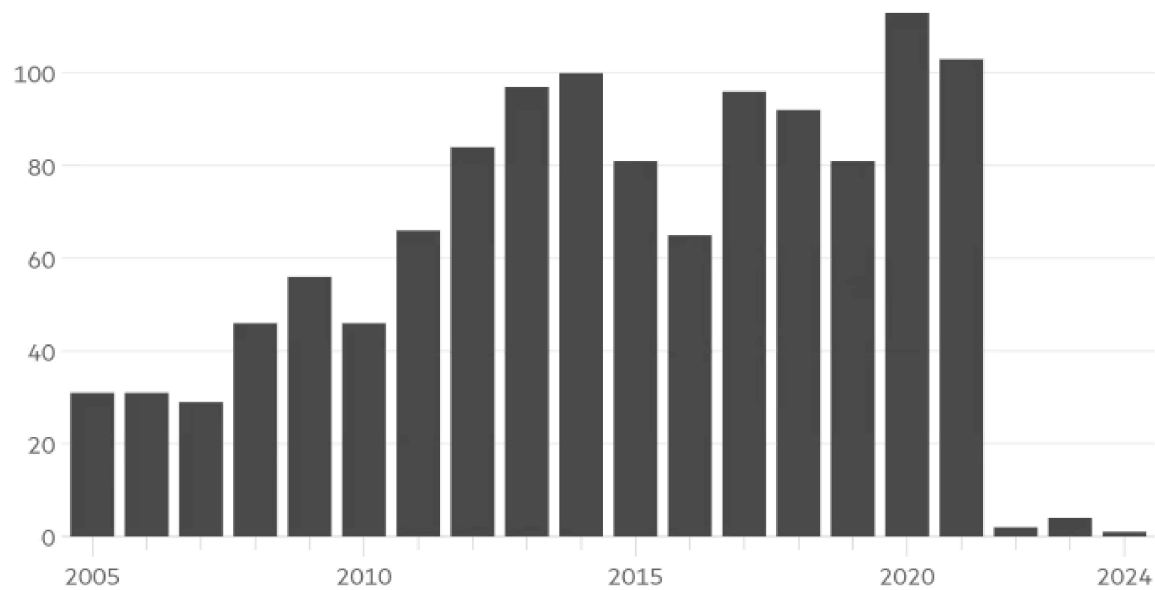
George Steer SEPTEMBER 22 2024

Here's a chart that tells only half a story:

SEC trading suspensions are increasingly rare

Suspensions per year



Source: U.S. Securities and Exchange Commission

The number of trading suspensions implemented "for the protection of investors" by the US Securities and Exchange Commission has collapsed, according to the regulator's own figures, down from over 100 in 2020 to just a handful in recent years — and one in the past nine and a half months.

FTAV would love to tell you the headline for this post is accurate. But the truth is the sharp drop-off coincided with the adoption of amendments to an old investor protection rule that barred broker-dealers from publishing quotations for issuers who hadn't filed their finances accurately and on time.

This exploded early in the pandemic, when a lack of staffing and resources made it harder for issuers to prep their financials just as dubious broker-dealers were offering quotes hither and thither to make up for a drop in revenue from commissions and market-making.

In the before times, broker-dealers were allowed to maintain a quoted market for an issuer's security in perpetuity, in the absence of up to date and publicly available information about the issuer — and even when the issuer no longer existed.

Today, regulators no longer have to suspend trading in securities based on a lack of info, because the new rules prevent solicited trades in those securities: basically, the SEC has transformed an issuer's inadequate disclosure into a compliance matter rather than a regulatory one.

Yet bouts of “unusual and unexplained” or “potentially manipulative” trading activity are a feature not a bug of US markets, and a good, old-fashioned suspension still has a time and place.

The first and thus far the only one implemented by the regulator this year came in early September, when the SEC called time on Baiyu Holdings, but only after its shares had been pumped and dumped.

What is slightly confusing is why other stocks that appear to have been similarly manipulated didn’t meet with the same fate. Take Singapore-based carpooling company Ryde, whose shares recently surged then plunged for no obvious reason. As with Baiyu, there’s no suggestion that Ryde the company had anything to do with its own weirdly volatile shares.

Days before it crashed last week, Hindenburg’s Nate Anderson (who since 2022 has chronicled what he calls the “nonsense happening on the Nasdaq exchange on a daily basis”) had flagged that Ryde’s catalyst-free rally bore “all the hallmarks” of another dump in the making.

But staying on top of every instance of "unusual or unexplained" trading activity — particularly in the absence of trading suspension alerts — is a game of whack-a-mole: stocks appear then disappear into irrelevance so quickly that attempts to spot patterns generally prove futile. So rather than dwell on Ryde's finances or its share price, let's take a look at the players behind an outsized chunk of the Nasdaq IPOs that end up going sour.

Ryde, for example, was helped on to the public market by Maxim Group, a bro-heavy New York brokerage with 35 regulatory "disclosure events" to its name, including a cease-and-desist order and $800,000 fine last year for failing to file suspicious activity reports that the firm consented to without admitting or denying Finra's allegations.

Last year, Maxim came close to being acquired by Russian-born Kazakh billionaire Timur Turlov's Freedom Holdings — itself a Hindenburg target since August 2023. (Freedom later described the short-seller's allegations of sanctions evasion and fake revenue as "meritless".)

Maxim declined to comment on Ryde or Freedom but said in a statement that . . .

> Most of Maxim's regulatory disclosures . . . occurred more than eight years ago, and none of those disclosures involved allegations relating to pump and dump or underwriting activity. Moreover, most of the disclosure events resulted in nominal fines or restitution, indicating that the underlying issue involved unintentional errors or technical violations that resulted in minimal or no customer harm.

A 2023 study conducted by independent researcher Stephen Walker and Ian Gow of the University of Melbourne sought to quantify just how minimally harmed or otherwise investors in small-cap IPOs underwritten by Maxim and similar outfits may have been.

Here's their original abstract, with FTAV's own emphasis:

> This study examines IPOs that went public on the NASDAQ Capital Market from January 2018 through April 2023 and looks at the relationship between Auditors and the IPO underwriters. This study excludes special purpose acquisition companies (SPACs) and focuses on traditional IPOs given the recent volume of literature examining Spac performance. A total of 245 IPOs were identified and an unsupervised machine learning algorithm in network detection was applied to identify unique groups of underwriters and auditors.
>
> Two of these groups showed substantially worse return characteristics, **and further analysis shows that there are key auditors and underwriters that have brought IPOs to market leading to substantial investor losses.**

None of which is *overly* surprising.

Deals from bilge-bracket underwriters are more likely to have bilge-bracket returns, while IPOs in general, and particularly those on Nasdaq Capital Market, with its relatively relaxed initial listing standards, make for terrible investments (Warren Buffett famously hates them). Even Goldman-backed companies underperformed the market, according to Walker and Gow's analysis.

But their findings are interesting all the same:

Top lead underwriters based on dollar loss from IPOs

Lead underwriter	Offering Value	Gain (Loss)	Average Return
ThinkEquity	336,003,661	-260,298,865	-0.775
Boustead Securities	238,469,878	-176,015,740	-0.738
EF Hutton	183,890,849	-169,392,243	-0.921
Network 1	167,482,735	-150,911,000	-0.901
Maxim Group, LLC	189,542,497	-148,669,108	-0.784
Banco Bradesco BBI	150,000,006	-125,769,236	-0.838

Lead underwriter	Offering Value	Gain (Loss)	Average Return
Aegis Capital Corp.	144,129,263	-119,568,502	-0.83
Roth Capital Partners	135,149,628	-97,803,674	-0.724

Show more

And:

Top auditors based on dollar loss from IPOs

Auditor	Offering Value	Gain (Loss)	Average Return
Friedman LLP	511,317,125	-201,880,305	-0.395
B F Borgers CPA, PC	166,745,217	-144,393,079	-0.866
KPMG Auditores Indep...	150,000,006	-125,769,236	-0.838
Marcum LLC	337,038,692	-114,518,299	-0.34
Mayer Hoffman McCann...	96,599,996	-82,935,432	-0.859
WWC	84,469,476	-71,995,782	-0.852
Brightman Almagor Zo...	68,605,993	-67,744,058	-0.987
Somekh Chaikin	67,500,007	-63,628,149	-0.943
TPS Thayer	72,500,002	-62,154,260	-0.857
Dixon Hughes Goodman	60,000,000	-59,325,000	-0.989

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And:

Return distribution for 245 IPOs analysed. Initial public offering data was sourced by Walker and Gow directly from the Nasdaq API. Stock market returns were sourced from the Nasdaq data service Sharadar. A total of 245 IPOs from January 2018 through April 2023 were collected. Returns are presented on an unadjusted basis and are calculated from IPO date through April 25, 2023. Where returns are aggregated, they are presented on an equal weighted basis (simple average), and a value-weighted basis (based on the dollar value of the IPO offering) © Stephen Walker/Ian Gow

A few things jump out. IPOs audited by the recently-departed BF Borgers did indeed lose investors a lot of cash, though it's not the worst performer on the list. Boustead Securities, Network 1 Financial Securities and EF Hutton will likewise forever have a place in our heart.

Lots of investors know all too well not to go anywhere near stocks associated with these guys. Regulators know all about their iffy returns, too. But dwindling enforcement actions and increasingly small fines mean the cost of doing business for certain brokers and bean-counters has rarely been so low.

Further reading:

— Lavish meals, IV drips: EF Hutton boss and Trump associate accused of spending $5.4m on bogus 'expenses' (Independent)