The U.S. Stock Market is in New Territory

While the U.S. stock market was hitting new highs in 2017, a fundamental change was underway. The number of publicly traded companies was continuing to contract. In 1996, there were 7,322 domestic public company listings. Today there are 3,671. There are no longer 5,000 stocks to make up the Russell 5000. Instead it includes roughly 3,500 according to Jason M. Thomas of the *Wall Street Journal**. There were more initial public offerings in 1996 than there have been over the past five years. The delisting rate over the period has also been high, in part driven by acquisitions and mergers over the last 10 years as companies have found it cheaper to acquire businesses than to build existing market share.

That's not to say that there are fewer businesses today than in 1996. In fact, the number of businesses has increased from nearly 4.7 million in 1996 to 5.9 million in 2015. But fewer are choosing to list on the stock exchanges. The decline in public ownership of U.S. businesses is attributed to a number of causes from excessive government regulation and disclosure requirements, to the difficulties of dealing with activist investors, less need to raise large amounts of capital to fund business development in a digital world, increased private funding sources, and outsourcing to overseas contractors.

The decline in the publicly traded company is very much a U.S. trend. The number of public companies increased by almost 30% elsewhere in the world since 1996, including nearly 50% increases in other developed countries and a 12% in emerging economies.

A number of concerns are raised by the decline in U.S. listings:

- Publicly traded companies are larger than ever,
- Large companies often find it difficult to grow revenues and profits faster than the economy,
- Opportunities to invest in early stage growth companies are increasingly limited to private equity investors,
- Initial public offerings come to market much later in the company's growth cycle after private equity investors have benefited from early exponential growth,
- IPO subscriptions are concentrated among large institutional players,
- Retail investors are shut out of many profitable investment opportunities.

Equity investments have long been the primary means of growing retirement assets and enabling individuals to share in the growth and profitability of successful companies. While the impact of fewer public companies will eventually be known only through hindsight, if the concerns above are valid, it says investors and investment advisors need to work harder and smarter to profit from market gains. Past performance is not an indication of future gains and passive investing based on historical performance is more at risk than ever. Investment approaches must be able to respond to a changing market environment with new risks and challenges.

As we enter 2018, that is very much the goal and direction of our firm.

** Where Have All the Public Companies Gone? By Jason M. Thomas, The Wall Street Journal, Nov. 16, 2017*

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