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The New Stock that Did Not Underperform

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ABSTRACT

This article examines the performance of newly listed stocks in a unique setting in which firms do not issue new equity immediately prior to listing. We find that in such a setting newly listed firms do not observe any underperformance over a three-year period as documented in the extant literature. This result is arrived at after controlling for both size and book-to-market effects using both event-time and calendar-time approaches. These findings present a challenge to the current extant empirical evidence and to the pseudo market timing and fads hypotheses.

KEY WORDS:

IPO | long-term performance | market efficiency | newly listed stocks | GCC

JEL CLASSIFICATION:

G14 | G15 | G30

Notes

1. An example of such is Jazeera Airways (KW: JAZK) that went public in 2008 without having issued equity prior to its listing.

2. Spotify is seriously considering going public in 2017, but there is a twist. CNBC. April 6, 2017. Retrieved from https://www.cnbc.com/2017/04/06/spotify-may-go-public-without-ipo-report.html.

3. Spotify, valued at $13 billion, to launch direct listing on NYSE. Reuters. May 12, 2017. Retrieved from http://uk.reuters.com/article/us-spotify-ipo-idUKKBN18821T.

4. IPOs are newly listed stocks that have issued equity before their listing as opposed to NLSs who did not.

5. For example, NLSs have an average market cap of KWD 77 million as opposed to KWD 223 million for non-NLS.

6. The number of stocks in the non-NLS portfolio ranges from 74 to 176 over the sample period.

7. We have rerun the regression using an EW index for KSE when the portfolio returns on the left-hand side of Eq. 4 are computed equally weighted. We arrive at similar findings to those reported in Table 5.

8. We thank an anonymous referee for recommending to add this section.