

AIM market – In pain as the decline continues



London Stock Exchange – AIM market

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First and foremost, in general, investors aren't making any money! The excitement that was generated around the year 2000 with tech, and following that by mining, has simply dissipated, and not returned.

AIM was designed to be an exciting growth market where investors made investments in growth companies hoping the management could deliver success, and the value of the shares would multibag as a result. Sadly few understood the risks, and this wasn't a problem whilst sentiment was good, but is now that the mood is different.

AIM was designed so that companies can come back to market quickly to raise new funds, quickly and easily without a prospectus. So far so good. The problem is the new placing shares are generally issued at a discount to market, and the average retail PI (Until recently*) could not participate, so the value of his shareholding was diluted.

* **Primary Bid** now offer occasional placings to retail investors.

It is this dilution of long term shareholders that is the crux of the problem in my opinion, unless you can understand accounts and be able to anticipate a placing coming, it makes no sense to hold shares long term in many cases, especially where the money raised is going to be spent on salaries etc. rather than some tangible investment.

So traders can make a good living on the AIM, but long term holders run the risk of erosion of value through dilution.

What are the other problems?

The cost of listing on AIM

Maintaining an AIM listing is expensive, there is a NOMAD and broker to engage, legal and regulatory expenses, and of course IR, quite a tidy sum that is not going to create any shareholder value at all!

Management time spent working on regulatory work and the constraints that can place on them.

Lack of broker support

Many a company complain that, after they have listed, and he's pocketed his fees, their broker simply hasn't been supportive, and their stock has drifted in the market with little investor interest, and light trading at best.

Difficulty in raising new funds

Related to the point above, an unpopular stock, looking for new funds, may find scant institutional interest, so their broker has to approach the bucket shop type brokers, that will take a line of stock, but only at a significant discount to the market price, severely damaging existing shareholders' holdings in the process, high erosion of value.

Death spiral financings

Related to the point above, if their broker cannot even interest the bucket shop brokers, a port of last resort is what's called a death spiral financing, whereby a finance company extends a line of credit to a company, which can be drawn down in tranches, against shares issued in return, using a volume weighted average price for the days preceding the request to draw funds.

Despite denials, the financier is said to short the stock upon receiving the request for funds from the company concerned, dropping the share price as a result of his selling, and thus lowering the average price, and then using the money from those sales to give to the company, and using the shares given in return by the company to close their position. This is a guaranteed win, as their selling will lower the price, so they will always receive back more than they outlaid. Vince Cable, amongst others, calls this 'liquidity', whereas I prefer to call it deceit.

Forward selling (Naked shorting) of placings

Those with a proper stockbroker are approached by him to participate in a placing for company XXX, whose stock, say, is 10P mid price. He instructs his broker to buy 100,000 in the

placing, and to short 100,000 at 10p in the market. By time the book is built, the placing may be at 8p, so the client takes the 100,000 at 8p to close his 10p short, and makes a tidy 20% in the process.

The best example of this was with New World Oil and Gas, where more shares were forward sold than existed in the market at the time, and shareholders did not approve the placing at the EGM called to approve it! Cornhill Clients were caught up in that fiasco.

Bulletin Boards

These are very dangerous places for new or inexperienced investors. There is no doubt that professionals are promoting stocks on bulletin boards, and have a knack of sucking in inexperienced investors, with a good story of multibag potential. I have been observing this behaviour for 20 years and it is getting worse.

Once people invest many become very protective of the company and are unable to hear criticism or negative opinions, professionals sooth nerves with positive posts, and encourage people to buy more to “top up” or “average down” as the price falls, increasing their losses.

No investment discipline

Big bang allowed us to become our own brokers, and with online trading and no proper advice, people are ignoring proper position sizing, and plunging large parts of their available funds into high risk stocks, and losing their money. This leads to people losing their pot quickly, and leaving the market.

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