Has Over-Regulation Been Killing the US Stock Market?

In the last forty years the market capitalization of all stocks listed on US exchanges has risen from $704 billion to $27 Trillion. Forty years ago there were nearly 5,000 stocks listed on US exchanges and that rose to about 7,000 by twenty years ago. Today there are 3,600 listed companies in US markets. How is it that while market cap has gone up forty-fold the number of listed stocks has fallen by a third? *Business Insider* discusses the **case of the missing US stocks**.

> *The U.S. seems to be the only developed country that lost so many stocks. Most other countries actually gained around 50 percent.*
>
> *This matters because the U.S. stock market accounts for a little over half of the entire global equity market, meaning a huge (and growing) number of investors and fund managers now have fewer options to choose from than they did only a couple of decades ago.*

The article cites three reasons for a decline in the number of listed US stocks.

1. Mergers and Acquisitions
2. Growth of Private Capital Investment
3. Increased Number of Federal Regulations

M&A is easy. Two companies become one in a takeover. And private capital has allowed many companies to avoid going public or put off their IPO until they have grown significantly. The article notes that Apple went public four years after starting out in Job's garage while today the average age of a tech company at IPO is 11 years. This is a function of available private capital but also increased costs associated with getting listed on a stock exchange. The end result is that only large well-funded companies have the wherewithal to do an IPO.

However, regulation, accord to *Business Insider* is the real culprit.

Sarbanes-Oxley Act

In 2002 in the wake of the Enron and WorldCom scandals congress passed the **Sarbanes-Oxley Act**. *Investopedia* explains.

> *The SOX Act mandated strict reforms to improve financial disclosures from corporations and prevent accounting fraud.*
>
> *The rules and enforcement policies outlined by the SOX Act amend or supplement existing legislation dealing with security regulations. The two key provisions of the Sarbanes-Oxley Act are Section 302 and Section 404.*
>
> *Section 302 is a mandate that requires senior management to certify the accuracy of the reported financial statement. Section 404 is a requirement that management and auditors establish internal controls and reporting methods on the adequacy of those controls. Section 404 has very costly implications for publicly traded companies as it is expensive to establish and maintain the required internal controls.*

The bottom line regarding this law is that it is proportionally more expensive for small startups than for larger companies and thus inhibits the growth of the sort of companies that feed into to market to make it grow.

Dodd-Frank Wall Street Reform Act

In the wake of the 2008 market crash and Great Recession congress enacted another law to clean up bank lending. Unfortunately the victims of the law have been small companies. The Federal Reserve Bank of Dallas writes that **Small-Business Lending Languishes as Community Banking Weakens**.

> *Community banks are key providers of loans to small businesses, which are important contributors to the local economy and international trade. While regulatory burden on small banks and its impact on lending has received attention, it is difficult to isolate the most significant driver of sluggish small-business lending.*

Business Insider writes that the answer is easy. Banks simply don’t want to deal with smaller (less than a quarter million) loans because the cost of compliance with Dodd-Frank is the same for all loans large or small.

The end result of all this is a lot fewer but much larger publicly traded companies

Educational Resources

Click the links below to get your FREE training materials.

Free Weekly Investing Webinars

Don't miss these free training events!

http://www.profitableinvestingtips.com/free-webinar

Forex Conspiracy Report

Read every word of this report!

http://www.forexconspiracyreport.com

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

http://www.candlestickforums.com