



Temporal Dimension & Risk Dynamics of the Seasoned Equity Offerings

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Author's contribution

The sole author designed, analyzed, interpreted and prepared the manuscript.

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ABSTRACT

Trading is a complicated temporal system with many time-related procedures and functionalities, like SEOs (NYSE companies), price action breakouts (technical analysis), etc. These temporal features could lead to profitable trading strategies with significant returns. The primary target of this article is a "read-the-tape" concept. In particular, the article has empirically tested Baron's data involved in NYSE SEO initiatives and then proposes temporal tactics for trading the NYSE SEOs. Statistical data analysis shows that, during the seasoned equity offerings, any shareowners significantly increase their shareholding; so, the market volatility is increased offering great return opportunities. The article concludes that, in NYSE SEO trading, the insiders are profit at the cost of hedge funds, momentary traders, and intraday speculators. Finally, the presented paper is not a complete trading system or even a proposed methodology; it is just a contribution to financial literature by examining empirically the temporal functions involved in NYSE SEOs initiatives, under the prism of the trading activities and their return functionalities.

Keywords: Equity issue timing; liquidity; market timing; seasoned equity offerings (SEO); trading functionalities; metadata; risk dynamics.

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1. INTRODUCTION

Trading as a temporary system [1-3] characterised by initiatives, e.g. the Seasoned Equity Offering (SEOs), rich in trading functionalities [4-6] and resulting in significant return opportunities [7-10]. In this field and for the SEO company initiatives, many encapsulated *Trading Functionalities* (SEOs/TF) could be examined and documented [11-14].

In all the above mentioned financial literature, both the information asset and the stock-taking intelligence were examined, but no SEO/TF information in risk dynamics environments was given. Also, the [15,16] financial literature reports that the seasoned equities and the option SEO initiatives have a dominant relationship and offer excellent trading functionalities for the insiders and the CEO/managers. In disagreeing with the above articles, the [17] point to a risk dynamics trading approach for all the kind of investors, traders, and speculators (long-term investors, swing momentary traders, intraday speculators). This article investigates whether, apart from the insiders, the traders could gain profit from the SEO/TF timing [7,10,18].

The remaining part of the article has been structured as follows: Section 2 ("*Trading Data*") is referred to the primitive shareholding data as variables in a corporate environment. Section 3 ("*Temporal Trading Methodology & Risk Dynamics*") presents the methodology used in this article and documents, the introduced SEO-f term by testing the underline relationship between company offerings (like SEO), timing, and the traders involved (e.g. insiders, long-term investors, passive hedge funds, momentary short-term traders, intraday speculators, etc.), as well as the impact of corporate, non-corporate, commercial, and non-commercial shareholdings during the SEO timing period. Finally, Section 4 ("*Conclusions*") summarises paper's implications and discusses introduced innovations and contributions.

2. TRADING DATA

Article's primitive data have been received from Baron's and the "SEC Form 13f" reports [19]. These initial data were used for estimation of total corporate holdings, as well as for any share-ownership changes [20]. For the empirically-tested statistical approach adopted in this article, the corporate investors and speculators were categorised as long-term or short-term according

to their average "*portfolio share turnover*" in the last 4-month period before the particular SEO day.

The introduced in this article term "*portfolio share turnover*" is actually an equity liquidity measure and it is calculated, for the empirically-tested introduced methodology, by dividing the recorded number of shares traded over a particular time-period by the average number of shares outstanding for that time-period.

For the presented empirically-tested approach many NYSE and NASDAQ SEO companies were considered, and all of them were selected from the trusted site: <https://www.topseos.com/rankings-of-best-seo-companies>. According to this site (accessed on December 2017), the three (3) best SEO companies are the following:

- 1) Higher Visibility (Cordova, Tennessee), with a client retention rate of 98%,
- 2) OuterBox (Akron, Ohio), with a client retention rate of 96%, and
- 3) Boostability (Lehi, Utah), with a client retention rate of 92%.

For the introduced empirically-tested approach, the presented analysis is based on a 4-month period, and the trading players involved in SEO were classified into four (4) categories according to their personal "*portfolio share turnover*" by the end of this 4-month period.

Hence, in the 1st category, the *Insiders* (IN; corporate active traders and speculators), ranked in the bottom third after having the lowest "*portfolio share turnover*", were placed. In the 2nd category, the *Hedge Funds* (HF; passive corporate investors), ranked in the top third after having the highest "*portfolio share turnover*", were placed. Following, the remaining one third is divided into two equal categories. So, in the 3rd category, the short-term *Momentary Traders* (MT; momentary traders) were placed; and finally, in the 4th category, the detected *Intraday individual Speculators* (IS; intraday speculators) were set (Table 1).

In the following Table 1 the statistics for a sample 4-month period are presented. Actually, this table contains the summary numbers of SEO initiatives from 1st January 2001 up to 30th June 2017 (All the seasoned equity offerings primitive data were obtained from SEC/SDC) [19].

Table 1. Sample statistics

	SEO trading				Non-SEO trading				Differences
	Obs.	Mean	Median	St. dev.	Obs.	Mean	Median	St. dev.	
A. Shareholding dynamics data									
Size	5105	4.14	4.94	1.91	53,005	4.76	4.17	2.25	-0.62*
Return	5105	0.54	0.25	1.54	53,005	0.16	0.44	0.87	0.38*
Market-to-book	5105	3.38	2.39	1.79	53,005	1.22	1.15	1.92	2.17*
Total shareholding (%)									
(1) (IN) Insiders	5105	8.60	7.12	7.89	53,005	9.02	8.88	9.70	-0.42**
(2) (HF) Hedge Funds	5105	12.29	11.48	10.16	53,005	10.11	8.21	11.08	2.18**
(3) (MT) Momentary Traders	5105	14.82	12.40	12.87	53,005	11.31	8.95	12.90	3.51**
(4) (IS) Intraday Speculators	5105	16.07	12.22	17.71	53,005	12.52	9.92	13.31	3.55**

*These changes are significantly different from zero at 4% level

**The changes are significantly different from zero at 2% level

Where:

Size – The natural logarithm of the “Sales” (this is actually a chart smoothing transformation).

Return – This is actually the stock return (a four-month period).

Market-to-Book is (total assets – book equity + market equity) / total assets.

IN – The Insiders.

HF – The Hedge Funds.

MT – The Momentary Traders.

IS – The Intraday Speculators.

Difference – This field is actually the “difference-in-Means” between the SEO initiatives and the Non-SEO initiatives.

Finally, the result is actually an unbalanced panel referring to a time-period from January 1st 2001 to June 30th 2017, with up to 58,110 observations, including a number of 5,105 SEOs.

Table 2. The time-series profiles of mean market-to-book ratios & returns

Month	Levels						Changes			
	-3	-2	-1	0	1	2	3	-3 to 1	-1 to 0	-1 to 3
Market-to-book ratios	1.29	2.61	2.44	2.04	2.08	1.91	1.43	-0.65	0.06	0.71
Returns	0.28	0.39	0.78	0.73	0.22	0.89	0.63	-0.33	-0.05	0.09

Changes significantly different from zero at 2% level

3. TEMPORAL TRADING METHODOLOGY & RISK DYNAMICS

In this section, the presented methodology is explained and the innovative term *SEO-temporal trading functionality (SEO-f)* is introduced, analyzed and documented. The *SEO-f* term is actually a financial literature's concept for implementing trading methodologies and tactics in a risk dynamics environment.

The introduced methodology is actually an empirically-tested approach based on freely available primitive data (Table 1) [19] and derived metadata (Table 2). From the financial literature, [14,21-23] argue that long-term institutions are likely to be passive traders not interested in (*SEO-f*) trading functionalities. On the other hand, speculators, momentary traders, swing traders, and intraday institutions are, by default, better informed and more active as SEO initiatives traders [24-26].

Timing SEO requires prompt attention and strong "*read-the-tape*" ("*read-the-market*") understanding, in order to see behind the SEO initiatives. In this field the *Sauder School of Business* of the University of British Columbia considered at the top level. In particular, the paper "*SEO Risk Dynamics*" written by three faculty members of this School (M. Carlson, A.J. Fisher, and R. Giammarino) recognized as the classical article in the SEO trading field [27]. Obviously, the "*SEO Risk Dynamics*" concept helps investors and traders to observe the dynamics of involved liquidity risks and then to increase or reduce their stock long positions as a temporal SEO-depended money-management tactic.

The statistical numbers (as 2nd level derived metadata) presented in Table 2 show that, similar to insiders and unlike the passive hedge funds investors, existing momentary traders usually increase their shareholding positions in the year and especially in the quarter before the SEO initiative. Following, and particularly for the time-period just after the particular SEO initiative, the amount of share acquisition drops below the pre-SEO initiative level (short-term swing trading shareholders). Also, the level of liquidations increases significantly in the year and particularly in the quarter just after the SEO initiative (with a remarkable increase in the days just after the SEO initiative). The Table's 2 derived metadata also imply that the level of new shareholding position rises in the quarter before the SEO

issue and then, at the quarter after the SEO, drops back to the pre-SEO initiative levels.

Finally, the innovative term "*SEO - temporal trading functionality (SEO-f)*" is defined as a 1-D array of temporal functionalities supporting SEO company initiatives trading. These *SEO-f* temporal time-series functionalities should be documented as 3rd level metadata by temporal-targets in trading as follows: outline the hedging, investing, swing, reversal, momentary, and intraday trading *Tactics, Methodologies, and Strategies*, based on specific time-targets; define the open/close executive orders for long/short positions at a specific temporal-target; rate the employees' commitment and SEO organizational performance [28]; and evaluate the SEO capital formation on economic growth [29,30].

4. CONCLUSIONS

Nowadays, with the internet-based trading era and the advancement of temporal time-series data, the NYSE SEO trading initiatives and functions offer excellent trading opportunities for the people involved in trading (institutions, insiders, individual commercial and non-commercial market investors, and speculators). Data analysis shows that during the SEO time, shareowners significantly increased their share ownership, including offerings that would have been categorised as overpriced during that SEO period, resulting in increased volatility and trading profit opportunities.

The primary target of this article is actually to discuss a "*read-the-tape*" or "*read-the-market*" trading concept based on the innovative term "*portfolio share turnover*" introduced in Section 2 and the *SEO-f* term introduced and documented in Section 3. In particular, this article gets empirically-tested Baron's data (as primitive 1st level metadata) involved in NYSE SEO initiatives (data mining), derives 2nd and 3rd level metadata for decision-making purposes (quality information), and finally proposes temporal tactics in trading the NYSE SEOs. Statistical data analysis shows that, during the seasoned equity offerings, any shareowners significantly increase their shareholding; so, the market volatility is increased for great return opportunities. The article concludes that, in NYSE SEO trading, the insiders are profit at the cost of hedge funds, momentary traders, and intraday speculators. Finally, must be noticed that the presented paper is not a complete trading system or even a proposed methodology; it is just a contribution to financial literature by examining empirically the

temporal functions involved in NYSE SEOs initiatives under the prism of the trading activities and their temporal return functionalities.

The above conclusion is further supported by the findings (as 2nd level metadata) that *SEO-f* timing functionality does not transfer wealth (profit) from the swing-trading temporal investors and intraday speculators to the passive investors and institutions. Also, it was found (from the 2001-2017 Barron's data sources analyzed) that the companies decide the SEO initiative when the share prices are relatively high. These results indicate, designate and suggest that, the *SEO-f* timing functionality does not profit the long-term corporate and the short-term non-commercial shareowners.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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