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SEC Advisory Committee
on Small and Emerging
Companies



The U.S. Need For Venture Exchanges

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Replacing lost distribution

- We combine
 - Data acquisition
 - Data science (investor targeting)
 - CRM (institutional investors)
 - Direct marketing (customized outbound emails)
 - Computer-telephony (telephone follow-up)
 - Feedback
- To provide:
 - Enhanced distribution to Wall Street
 - Enhanced distribution to Companies



Background

- Published Studies
 - Why are IPOs in the ICU? (Weild & Kim)
 - Market Structure is Causing the IPO Crisis (Weild & Kim)
 - Market Structure is Causing the IPO Crisis - and More (Weild & Kim)
 - A Wake-up Call For America (Weild & Kim)
 - The Trouble with Small Tick Sizes (Weild, Kim & Newport)
 - Making Stock Markets Work to Support Economic Growth (Weild, Kim & Newport)
 - The U.S. Need for Venture Exchanges (Weild & Kim)



Widely followed:

- SEC
- Federation of European Securities Commissions
- European Commission
- OECD
- G-20



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OPINION | OCTOBER 28, 2011

How to Revive Small-Cap IPOs

By DAVID WEILD

One-size-fits-all stock trading has become a disaster for all but our nation's largest companies. Our rush to cut trading spreads and commissions has made large caps even more active—but we've abandoned the entrepreneur in the process. These are the people who take on most of the business risk and job creation in this country. With such inhospitable stock markets, mergers and acquisitions have become virtually their only outlet to realize value for their hard work.

And as we've so often seen during this tough economy, M&A generates job cuts, not new jobs. That's why young, dynamic companies need renewed capital-market support so they can grow independently without being forced to sell.

What's needed now is a new, parallel market for public companies under \$2 billion in value. Trading rules in this new market would allow for higher commissions, which would provide adequate incentives for small investment firms to get back into the business of underwriting and supporting small-cap companies. The SEC could use its authority under securities laws to exempt this market from rules standing in the way, or Congress can step in.

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Agenda:

- The Problem
- Why It Is Important
- Primary Cause
- Solution: Venture Exchanges
- Manage by Objective

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THE PROBLEM

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By the Numbers (1998 to Present)

- U.S. Fell from #1 to #12 in Small IPOs
- U.S. Fell from #1 to #2 in Large IPOs
- U.S. Fell from 14% to 8% Start-ups
- U.S. Fell from 9,000 to 5,000 Listed Companies
- U.S. IPOs fell from 500/year to 150/year, should be 950/year
- Lackluster employment

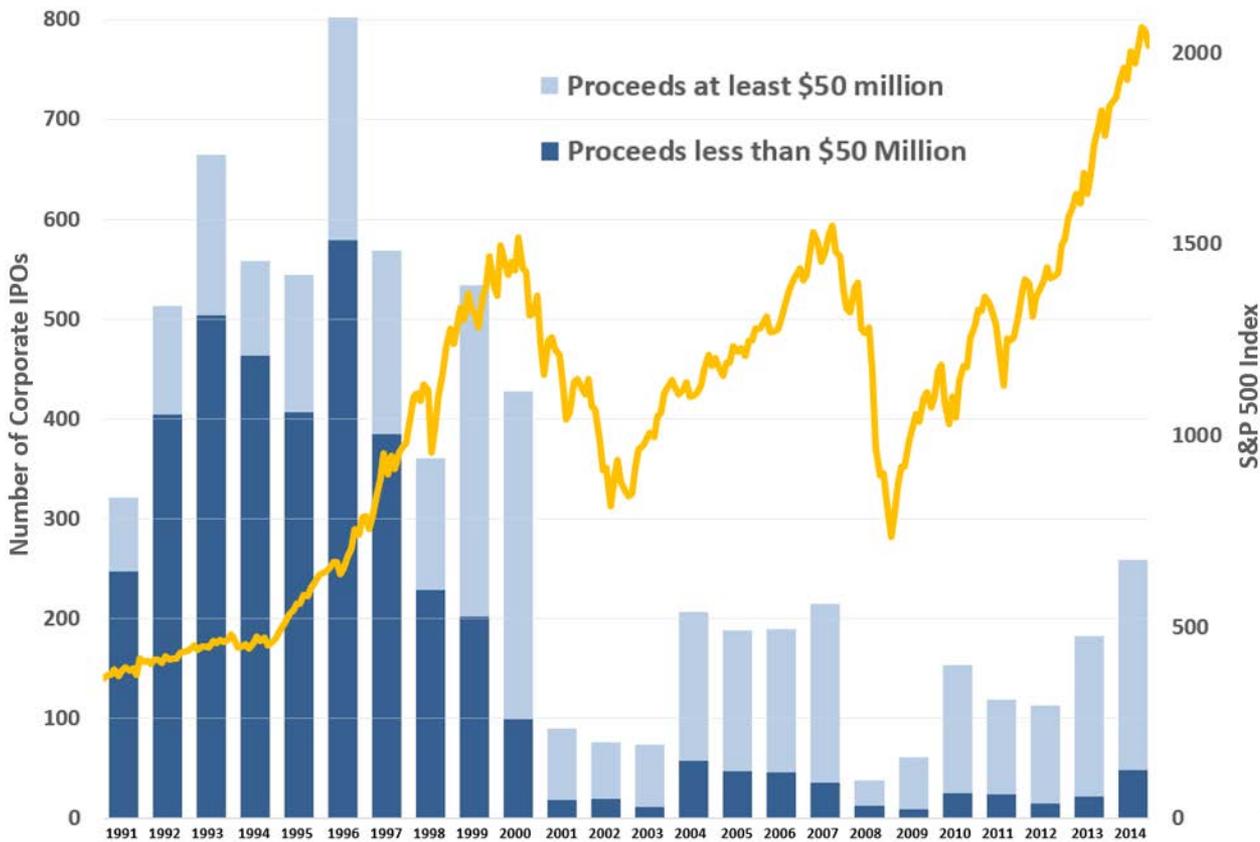


By the Distribution System

- Decline in middle market institutional distribution
- Decline in fundamentally-based retail distribution



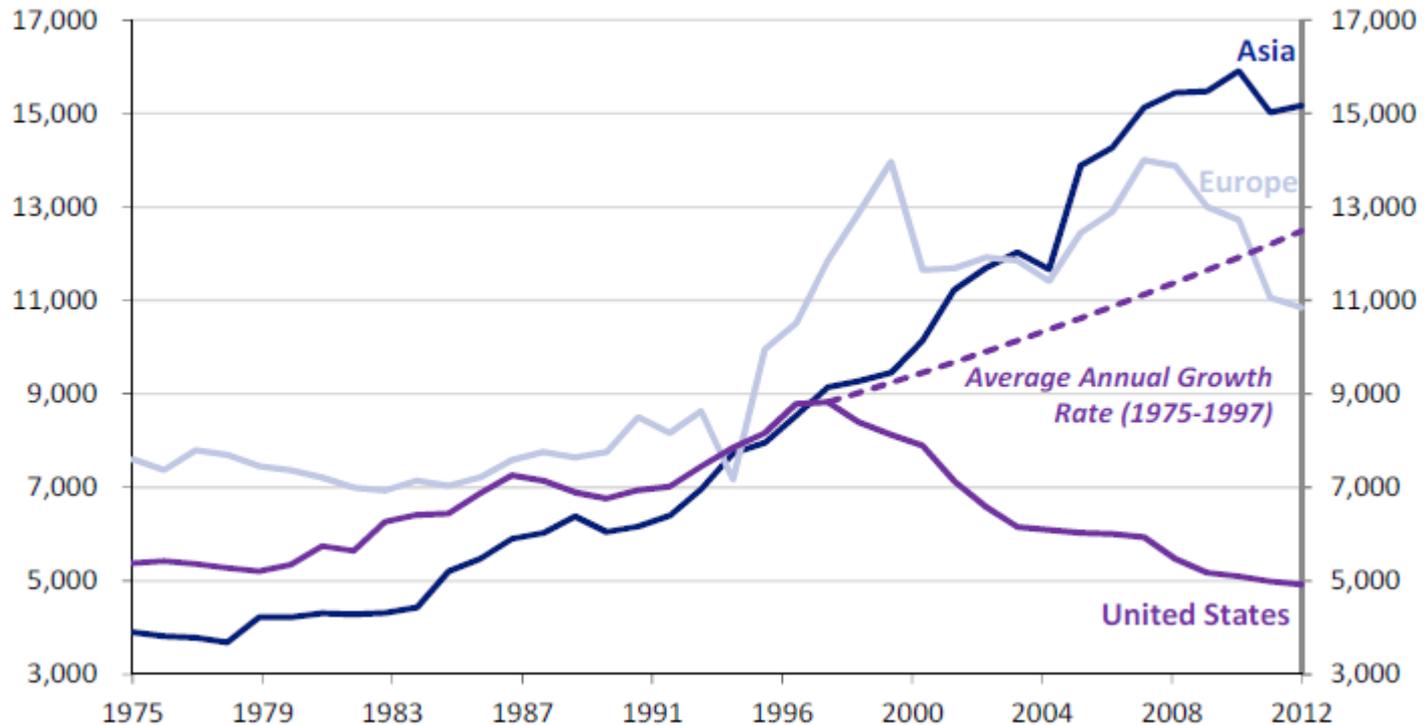
What IPO market?





What IPO market?

Chart A: Total Equity Listings



Source: Source: Weild, David and Kim, Edward. IssuWorks. Voss, Jason. CFA Institute.



Investment Banking System Collapsed (1994)

AB Capital & Investment	First Hanover Securities	Lehman Brothers	Robert W Baird
Advest	First Marathon	LH Alton	Robertson Stephens
AG Edwards & Sons	Friedman Billings Ramsey	Mabon Securities	Robinson-Humphrey
Allen & Co	Gilford Securities	Marleau Lemire Securities	Rocky Mountain Securities
Americorp Securities	GKN Securities	Mathews Holmquist	Rodman & Renshaw
Anderson & Strudwick	Glaser Capital	McDonald Investments	Roney Capital Markets
AR Baron	Global Capital Securities	Merrill Lynch	Roth Capital Partners
AT Brod	Goldman Sachs	MH Meyerson	Royce Investment Group
Auerbach Pollak & Richardson	Grady & Hatch	Miller Johnson & Kuehn	RvR Securities
Banc of America Securities	Greenway Capital	Montgomery Securities	Ryan Lee
Baraban Securities	Hamilton Investments	Morgan Keegan	Salomon Brothers
Barber & Bronson	Hampshire Securities	Morgan Stanley	Sands Brothers
Baring Securities	Hanifen Imhoff	Murchison Investment Bankers	Schneider Securities
Barington Capital	Harriman Group	NatCity Investments	Schroder
Barron Chase Securities	Harris Nesbitt Gerard	NatWest Securities	SG Cowen
Beacon Securities	HJ Meyers	Needham	Smith Barney
Bear Stearns	Howe Barnes Investments	Neidiger Tucker Bruner	Spectrum Securities
Brenner Securities	IAR Securities Inc	Nesbitt Burns	Spelman
Chase H&Q	ING Barings	Nomura Securities	Stephens
CIBC World Markets	International Assets Advisory	Norcross Securities	Sterling Foster
Citigroup Global Markets	Investec	Oak Ridge Investments	Sterne Agee & Leach
Commonwealth Associates	Investors Associates	Oppenheimer	Strasbourger Pearson
Comprehensive Capital	J Gregory	Oscar Gruss & Son Inc	Stratton Oakmont
Craig-Hallum Group	James Capel	Pacific Crest Securities	Summit Investment
Credit Suisse First Boston	Janney Montgomery Scott	Pacific Growth Equities	Texas Capital Securities
D Blech	JC Bradford	PaineWebber	Thomas James
Dain Rauscher Wessels	Joseph Stevens	Paragon Capital Markets	Toluca Pacific Securities
Daiwa Securities America	Josephthal	Paribas Capital Markets	Tucker Anthony
Dean Witter Reynolds	JP Morgan Securities	Parker/Hunter	UBS Securities
Deutsche Bank Securities	JW Charles Securities	Patterson Travis Securities	VTR Capital
Deutsche Morgan Grenfell	Keane Securities	Paulson Investment	Wachovia Capital Markets
DH Blair	Kennedy Mathews Landis Healy	Piper Jaffray	Wedbush Morgan Securities
Dickinson	Kensington Wells	Principal Financial Securities	Wells Fargo Securities
Dillon-Gage Securities	Kidder, Peabody	Prudential Securities	Werbel-Roth Securities
Donaldson Lufkin & Jenrette	Kleinwort Benson Securities	RAF Financial	Wertheim Schroder
Equity Securities Investment	Ladenburg Thalmann	RAS Securities	Westfield Financial
Everen Securities	Laidlaw Global Securities	Raymond James	Whale Securities
FAC/Equities	Lam Wagner	Redstone Securities	William Blair
FEB Investments	Lazard Freres	Rickel & Associates	Yamaichi Securities
First Asset Management	LC Wegard	RJ Steichen	Yee Desmond Schroeder
First Equity Corp of Florida	Legg Mason Wood Walker		



No Money For Sales, Distribution and Market Making in Small Cap Stocks (2014 Bookrunners of Small IPOs)

Aegis Capital
Barclays Capital
Capitol Securities Mgmt
Chardan Capital Markets
Cowen
Credit Suisse Securities
Dawson James Securities
Deutsche Bank Securities

Feltl
Henley
Jefferies
JMP Securities
Laidlaw
Leerink Partners
Maxim Group
MDB Capital Group

Newport Coast Securities
Northland Capital Markets
Oppenheimer
Piper Jaffray
Raymond James
Robert W Baird
Roth Capital Partners
Sandler O'Neill

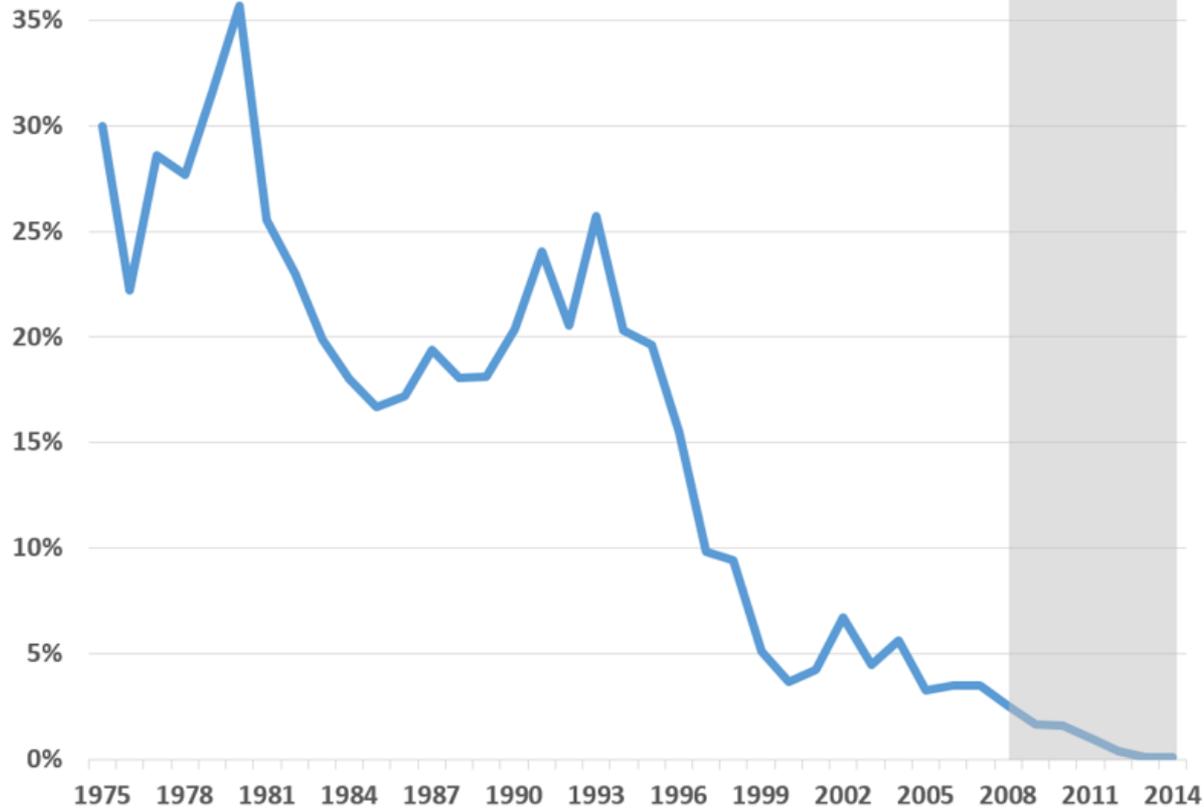
Scarsdale Equities
Stephens
Stifel Nicolaus / Keefe
Summer Street
UBS Securities
Wells Fargo Securities
William Blair

What Some Academics Attribute to Weild & Kim as, “The Ecosystem Theory of Small IPO Decline.”



What IPO market?

*Percentage of Venture-Funded Companies that have Gone Public
(Note-shaded area highlights those years that are understated given the relative youth of those
venture investments)*



Source: National Venture Capital Association, based on number of first venture fundings each year

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WHY IT IS IMPORTANT

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Why Everyone Should Care

Jobs | Prosperity | Problem Solving

- Jobs (10 million+ total, 1.5 million- 2.5 million direct)
- Poverty (Full Employment)
- Retirement (Growth)
- Innovation
 - Oncology
 - Renewable Energy
 - Internet Security
- National Security

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PRIMARY CAUSE

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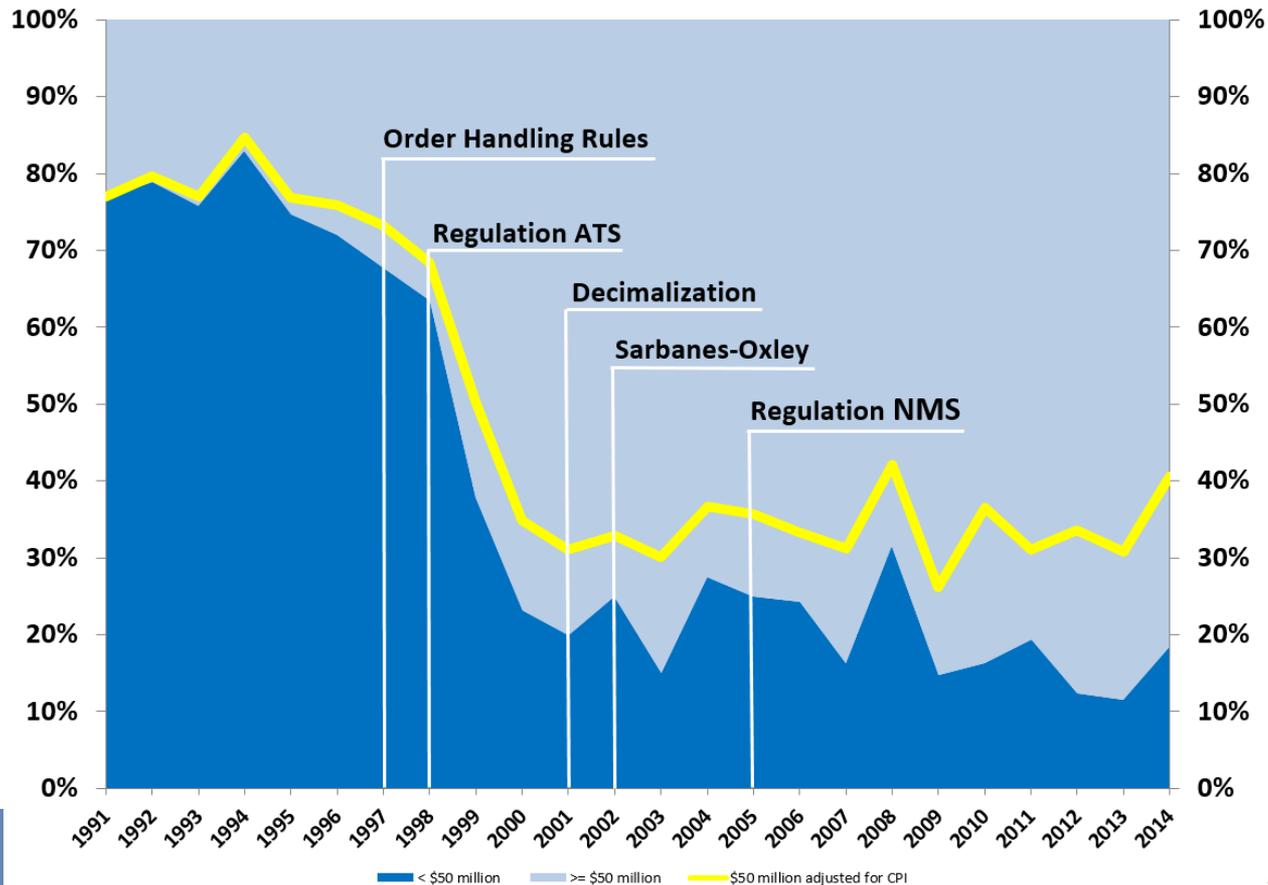


Two Causes

- **Capacity** (Diminished revenue to pay for investment banking, research, sales and capital commitment in support of liquidity)
 - One-size-fits-all market model
 - Works for naturally liquid stocks (large- and mid-cap)
 - Fails illiquid stocks (small-, micro- and nano-cap)
- **Cost** to Issuers
 - Disclosure
 - Transaction failure
 - Aftermarket failure



Loss of Economic Incentives



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Let's put an end to "One-size-fits-all markets"

SOLUTION: VENTURE EXCHANGES

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What is a “Venture Exchange?”

- NASDAQ in the 1970s and 1980s was the *de facto* U.S. Venture Exchange
- London’s AIM
- Toronto’s TSX Venture

All have lost their way through a loss of the ecosystem-focused (as opposed to shareholder-focused) economic model.



Be Bold: Institutionalize the Solution

- Create “Regulation Venture Exchange”
- Establish a “Venture Exchange Division” of the SEC (and FINRA and DTCC)
 - Charter “member-owned” (sustains the ecosystem) “Venture Exchanges”
 - Permit listings up to \$2 billion (feeds ecosystem) in market value
 - Competition:
 - Between Venture Exchanges
 - Between Venture Exchanges and Other Exchanges for Listings Up to \$2 Billion in Market Cap.



Exempt Venture Exchanges From:

- Order Handling Rules
- Reg. ATS and NMS
- Unlisted Trading Privileges (Rule 12f-2)
- Decimalization
- Sarbanes-Oxley
- State Blue Sky



Create a new pro-growth environment:

- “Yes” to
 - SEC Review (not State, not NOMAD)
 - SEC Scaled Disclosure
 - JOBS Act Research Rules
- “No” to
 - ETFs & Index Funds
 - Depress liquidity
 - Siphon capital from capital formation
 - Undermine ‘Entrepreneurial IQ’



In addition, some improvements to private markets:

- Require basic disclosure
- Require a consolidated tape
- Allow national aftermarket solicitation of accredited investors and institutions

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MANAGE BY OBJECTIVE

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The Objective: By the Numbers: 10 million jobs

- U.S. Fell from #1 to #12 in Small IPOs
 - ***U.S. Back to #1***
- U.S. Fell from #1 to #2 in Large IPOs
 - ***U.S. Back to #1***
- U.S. Fell from 14% to 8% Start-ups
 - ***U.S. Back to 14%***
- U.S. Fell from 9,000 to 5,000 Listed Companies
 - ***U.S. Goes from 5,000 to 13,000+ growing at 3%/year***
- U.S. IPOs fell from 500/year to 150/year
 - ***U.S. Goes from 150/year to 950/year growing at 3%/year***

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