‘Magic or Mushrooms?’

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No prizes for headline writing, but we pose the question: are private shareholders a magic ingredient in an AIM company’s share register or are they to be despised and kept in the dark?

Our view is clear, they are now THE MOST important AIM shareholders and they need to be communicated with much more like FMPG (Fast Moving Packaged Goods) consumers than like institutional investors.

Openly available and honest information, clearly written and delivered frequently to their screens at the most convenient time for them.

This conclusion is moulded by startling figures from the Office for National Statistics. For the first time the ONS has split data for AIM companies out from the whole market. It shows that retail investors form the largest cohort of investors in AIM, constituting just over 30 per cent.

These are also the people who set share prices. We have no figures for who buys and sells shares (liquidity) but old market hands reckon that for most AIM shares 95 per cent of share trades come from individuals.

Here’s the breakdown:

Top 6 holders of AIM shares	
Individuals	30.6%
Unit trusts	10.6%
Other financial institutions	4.6%
Pension funds	2.7%
Insurance companies	2.3%
Rest of the World	45%

Source: ONS y/e 2014

The Rest of the World is expensive to pin down (but probably worth the effort). However, the despised ‘Individuals’ own **three times** the number of shares than the once mighty Unit Trust sector.

Charities, churches, etc; Insurance companies; Pension funds; Investment trusts; Banks; Other financial institutions; Private non-financial companies and the Public sector own **just 13.9 per cent between them**.

Food for thought we’d say and time for AIM company directors to question the obsessive drive by their advisors to keep chasing after institutions.

Our view is simple **if you want to shoot ducks go to a pond** and the pond where the investors are hungry for good quality information is the private investor pool.

We have long argued that private investors should be treated with more respect by both the market and the regulatory authorities. Link to ‘Suits and Suitability’. In our think piece ‘Suits and Suitability’ back in 2004:

‘The regulatory burden now represents a major cost of business. For example, in our field of company analysis, the total cost of analysis has remained roughly the same over the past three years even though the analyst wage bill has more than halved. Cost of compliance has made up the balance.

The effect of this is to deny coverage to many smaller companies. Even when limited coverage does take place, it is often not sufficient to allow brokers the breadth of views they need to recommend investment ideas to their clients.

One effect of this is to deny investment to good companies, with a consequent impact upon their prosperity and that of the nation. Another is to deny access to information about excellent investments to millions of individual investors – the very audience that Government is most keen to protect.'

Even longer ago, in 1999, '*Tomorrow's Giants' (link)* warned that:

'The UK needs to foster entrepreneurship, at all levels of the business sector, and particularly in the layer of companies who have established themselves and have the potential for significant, in some cases huge, growth. This potential goes unrealised too often.'

Sadly, however, those initiatives have since been swamped by oppressive regulation that owes much more to regulator empire building and back protecting than it does to real concern for the private investor.

Since then, of course, we have experienced the banking scandal and the consequent discrediting of the FSA, only to see it replaced by a new tin-eared regulator, the FCA, which has leaped with glee upon the opportunity to build an even bigger empire and armour plate its back with even heavier gauge regulation.

As one of the City's most respected thinkers, Lord Flight, said just last year, '*The banks caused the crash. The investment community was blameless, yet it has suffered even more stringent regulation.'*

Solutions

OK. So what to do about it.

Simple, we think, **respect the private shareholder**. He or her, mostly he as far as we can see, might be motivated by 'serious' investment criteria, but, the motivation might equally be the desire just to take a punt. It might be enthusiasm for your company, it could be excitement about your sector but it might be just a hunt for a hobby.

We are puzzled by Government thinking that allows us to pop down to the bookies and whack any sum on a horse whilst it discriminates against stockbrokers (as opposed to bookies that is) by preventing them from promoting their small company client to their private investors.

We believe that individual investors and companies both need spread. The best strategy for small investors is a wide spread of investments in smaller companies; the best for small companies is a wide spread of investors.

But isn't that expensive I hear you say? Well, ever heard of the Internet, social media and Twitter, or Trumpitter (groan) as we now know it? If it's good enough for the President of the United States, it's probably good enough for pretty well any small company.

We have studied a fair number of companies, right down to those dominated by the bulletin boards. Sure, some of the investors are just punting but what's wrong with that. There's a hell of a lot more regulated information available on even the tiniest most speculative company than there is on a horse and, before you say it, of course there are crooks in both racing and AIM, but AIM has some beady scrutineers, if you know where to look.

We have come to respect immensely some of the bulletin board investors. Often they know more than the professionals and, indeed, a lot of them ARE professionals and they do their homework even more carefully because they are investing their OWN money.

Many of them, however, have other jobs and what does that tell you. Well, think about it a little and you'll probably conclude that they might well review their portfolios at the weekend and what's to be concluded from that? Again it's common sense, where possible release information early on a Monday morning whilst your company is fresh in their minds and before they go off chasing another rainbow. And just like a FMPG company, make sure that you refresh the story at every opportunity.

No need to give up on the institutional investor

Just bear in mind that they are people too and **nothing attracts attention like success, aka a steadily rising and justified share price.**

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