

# FAMILY FEUD

More bad news for investors in dual-class share firms.



Canada's had a long (and sordid) history with the dual-class share. A ubiquitous presence on the Toronto Stock Exchange (TSX), dual-class shares ensure that the founding families of the companies offering them get the best of both worlds—access to public equity markets along with the final say when it comes to voting time. Big-time cases of wrongdoing at firms such as Hollinger Inc. and Royal Group Technologies show just how poorly this kind of share structure serves minority shareholders. Granted, those are some extreme examples of power imbalances, but there's a growing body of concrete research that shows dual-class shares simply don't add up for investors.

In "Class Struggle: Transparent ticker symbols level the playing field for all investors" (*Canadian Investment Review*, Fall 2007), Najah Attig found a statistically significant decline in the prices of dual-class shares around the time the TSX changed their ticker symbols to improve disclosure of voting rights in 2004 (of course, this practice was reversed the following year). In this issue, three finance professors from Wilfrid Laurier University add their number-

crunching skills to the debate in "Fair Share: How Much Value is Lost with Dual-Class Control Structure?" (p. 49).

Brian F. Smith, Ben Amoako-Adu, and Madhu Kalimipalli find it's the management voting leverage that comes with dual-class shares and corporate pyramids that leads to lower value for shareholders. How big is the value discount? On average, dual-class companies in this country sell at a discount of 1.39 times book value to their single-class counterparts. Moreover, single-class companies employing a pyramid structure sell at a discount of 1.27 times book value. Bottom line? If you go by the book, dual-class shares are a losing proposition for Canadian investors. Regulators have been urged to address this issue for years now—will this growing body of research finally lead them to act?

Finally, I'd like to congratulate the winners of the 2007 AIMA Canada Research Award. "Getting Real: A Look at the Limits of Hedge Fund Replication," by Neil Simons and Adrian Hussey tests the boundaries of this new approach to alpha generation. ■

— Caroline Cakebread

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